2019

ANNUAL REPORT

Report and Financial Statements 2019

BANCA
UBAE
مصرف اليوباي

MISSION

Identify the best banking solutions for our internationally oriented customers.

VISION

Be one of the best banks in Italy for International Business, leveraging our close connections with emerging markets in the Middle East, North Africa and especially in Libya.

STRATEGY

Pursue sustainable growth in the long run, creating value for our customers, shareholders and associates.

Share Capital Eur 159,860,800 fully paid up

List by percentage:

67.55%	Libyan Foreign Bank, Tripoli
10.79%	UniCredit S.p.A., Rome
5.39%	Eni SpA, Rome
4,66%	Banque Centrale Populaire, Casablanca
4.34%	Banque Marocaine du Commerce Extérieur, Casablanca
3.67%	Sansedoni Siena S.p.A. (Fondazione Monte dei Paschi di Siena), Siena
1.80%	Intesa Sanpaolo S.p.A., Turin
1.80%	Telecom Italia S.p.A., Milan

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HEAD OFFICE - ROME

Address	Via Quintino Sella, 2 00187 Rome, Italy
P.O. Box	290
Telephone	+39 06 423771
Cable	UBAE ROMA
Swift	UBAI IT RR
Web	www.bancaubae.it

MILAN BRANCH

Address	Piazza A. Diaz, 7 20123 Milan, Italy
Telephone	+39 02 7252191
Cable	UBAE MILANO
Swift	UBAI IT RR MIL

TRIPOLI (LIBYA) REPRESENTATIVE OFFICE (LIBYA)

Address	Omar Mukhtar Street – Omar Mukhtar Investment Complex
Telephone	+218 21 4446598 / 4447639
Fax	+218 21 3340352

BOARD OF DIRECTORS 2019-2021

Appointed by Shareholders' Meeting on 18 March 2019

Chairman: Sharef S. Alwan

Vice Chairman: Antonio Piras

Directors:
Mohammed K. Mokdad
Samuele Boscagli
Alberto Rossetti
Amin A. F. Botlag
Saleh A. M. Edbayaa
Elamari M.A. Mansur
Fekri A. A. Sinan

Secretary of the Board of Directors and the Executive Committee:
Lavinia Callegari

BOARD OF STATUTORY AUDITORS **

Appointed by Shareholders' Meeting on 27 April 2018

Chairman: Fabio Gallassi

Statutory auditors:
Francesco Rocchi
Elenio Bidoggia

Alternate auditors:
Gabriele Felici
Sergio Montedoro

** Members of the Oversight Body as per legislative decree no. 231/2001
The shareholders' meeting on 27 April 2018 nominated the members of the Auditing Board as members of the Oversight Body as per legislative decree no. 231/2001.

GENERAL MANAGEMENT

General Manager	Mario Sabato
Deputy General Manager	Esam Elrayas (1)

Executive Directors

Global Head of Business	Massimo Castellucci
Development Area Head of Administration/IT	Fabio Fatuzzo (2)
Head of Credit & Risk Area	Giovanni Gargasole (3)
Head of Finance Area	Antonino Sprizzi (4)

Heads of Department:

Human Resources	Barbara Camilli
Internal Audit	Mirella Biasco
Compliance & Anti Money-Laundering	Annabella Colesanti
Risk Management	Alessia Monterosso
Head of Tripoli Representation Office	Mahmud Ali Elesawi(5)

(1) He replaced Mr E. Amer who left the bank in May 2019
(2) His employment ended on 28 February 2020
(3) His employment ended on 28 January 2020
(4) His employment ended on 19 March 2020
(5) The 254th Board of Directors' Meeting on 30 April 2019 appointed Mr Tariq Mohammed Saed Alajeeli starting on 1 January 2020 as Head of the Tripoli Representation Office, replacing Mr Mahmoud Elesawi.

Finally, it should be noted that Mr. A. Aboushwesha (Deputy General Manager) left the Bank in July 2019.

YOUR PARTNER FOR INTERNATIONAL BUSINESS

BANCA UBAE

مصرف اليوباي

SUMMARY DATA, ECONOMIC AND FINANCIAL INDICES AND COMPANY GRAPHS

FINANCIAL DATA	31 DEC 2017	31 DEC 2018	31 DEC 2019
FINANCIAL ASSETS	€ 333,687,880	589,310,877	299,354,638
BANKS FINANCING	€ 601,794,546	€ 463,292,613	€ 405,424,879
DEPOSITS TO BANKS	€ 1,441,828,720	€ 552,663,202	€ 374,566,546
CUSTOMER FINANCING	€ 384,773,968	€ 840,136,200	€ 964,321,139
EARNING ASSETS	€ 2,762,085,114	€ 2,445,402,892	€ 2,043,667,202
TOTAL ASSETS	€ 2,845,669,200	€ 2,526,033,035	€ 2,107,238,061
DEPOSITS FROM BANKS AND A/C WITH BANKS	€ 2,352,112,620	€ 2,249,914,394	€ 1,612,793,316
SUBORDINATED LOANS	€ 100,000,000	€ 100,000,000	€ 100,000,000
CUSTOMER FUNDING	€ 125,798,327	€ 105,404,441	€ 222,381,362
TOTAL FUNDING	€ 2,577,910,947	€ 2,355,318,835	€ 1,835,174,678
RESERVES	€ 59,485,155	€ 34,612,797	€ 107,366,611
SHARE CAPITAL	€ 159,860,800	€ 159,860,800	€ 159,860,800
NET PROFIT / LOSS	€ 9,439,548	€ (51,457,309)	€ (26,144,425)
GROSS WORTH	€ 228,785,503	€ 143,016,288	€ 241,082,986
NET INTEREST INCOME	€ 18,660,858	€ 13,592,986	€ 14,704,359
NET COMMISSIONS	€ 17,088,479	€ 16,451,998	€ 14,356,765
NET FINANCIAL INCOME	€ 17,454,094	€ 1,984,392	€ (2,929,824)
NET TRADING INCOME	€ 53,206,857	€ 32,029,375	€ 26,131,301
OPERATING CHARGES	€ (29,647,472)	€ (34,021,612)	€ (31,350,292)
NET OPERATING PROFIT	€ 23,559,385	€ (1,992,237)	€ (5,218,991)
NET PROFIT	€ 9,439,548	€ (51,457,309)	€ (26,144,425)
NO CASH ASSET (L/C)	€ 392,947,381	€ 437,377,160	€ 298,369,060
NO CASH ASSET (L/G)	€ 446,436,903	€ 406,470,630	€ 371,682,623
TURNOVER LETTERS OF CREDIT OIL	€ 150,935,354	€ 360,088,012	€ 406,334,259
TURNOVER LETTERS OF CREDIT NON-OIL	€ 1,777,681,945	€ 1,630,835,629	€ 1,144,019,218
TURNOVER GUARANTEES	€ 122,617,313	€ 125,257,518	€ 51,656,610
OUTSTANDING GUARANTEES	€ 447,204,573	€ 408,131,132	€ 375,971,302
NPL	€ 68,747,741	€ 139,335,594	€ 149,148,723
GROSS WORTH/TOTAL ASSETS	8.04%	5.66%	11.44%
LOANS/DEPOSITS RATIO	41.94%	57.93%	84.93%
INTERBANK RATIO	86.88%	45.16%	48.36%
NPL/TOTAL CASH & NO CASH ASSETS	1.91%	4.24%	5.50%
ROE NET PROFIT/PAID CAPITAL	5.90%	-32.19%	-16.35%
ROE NET PROFIT/GROSS WORTH	4.13%	-35.98%	-10.84%
ROA NET PROFIT/TOTAL ASSETS (*)	0.33%	-2.04%	-1.24%
OPERATING CHARGES/NET TRADING INCOME	55.72%	106.22%	119.97%
NET PROFIT/NUMBER OF EMPLOYEES	€ 48,161	€ (259,885)	€ (140,561)
NUMBER OF EMPLOYEES (FIXED AND NOT FIXED TERMS)	196	198	186
TOTAL CAPITAL RATIO (CAPITAL ADEQUACY RATIO)	17.89%	17.34%	24.43%
CET1/TIER I CAPITAL RATIO (EQUITY ASSET RATIO)	12.33%	10.37%	17.41%
BANKING OWN FUNDS	€ 321,957,894	€ 262,848,986	€ 348,265,232

(*) pursuant to art. 90-CRD IV (Capital Requirements Directives)

Boardroom

ANNUAL REPORT

1 January-31 December 2019

Mr. Sharef S. Alwan

CHAIRMAN'S STATEMENT

To all shareholders

This is my first year as Chairman of Banca UBAE and in this regard I would like to thank the shareholders without reservation, first of all for the trust placed in my work.
During 2019 your Bank carried out its activity in a domestic and international macroeconomic context with unexpected commercial tensions that influenced economic growth. In particular, the so-called tariff war between the USA and China in the first place and the generalised industrial recession in the world, have led to a downward trend in the economies which has therefore turned out to be below expectations.

The worries of a slowdown and a real strong recession manifested at the beginning of the year by economists, also fuelled by the uncertainties of Brexit, have only had the effect of contracting investments in 2019 and perhaps will have a more tangible effect in 2020.

The economy of the European continent was strongly influenced by that of Germany which interrupted the traditional positive trend by repeatedly threatening the emergence of a recession due to the demand for goods and services almost halved compared to 2018. The ECB has however continued to maintain an accommodating monetary policy, even if the activity of purchasing government bonds was gradually reduced. In Italy contagious elements such as the diffidence with which many operators have looked at the management of public finances and relations with the European Commission, have contributed to curbing and weighing down economic dynamics. In practice, the Eurozone economy has shown a marked slowdown also due to the contraction in GDP caused by the sharp reduction in investments and a slight decrease in domestic consumption.

In the financial year just ended, we have undertaken a series of measures to improve the organisational chart by eliminating, among other things, the roles of the two Assistant General Managers, partially redefining the service model to allow immediate decisions to benefit the customer, while significantly reducing overheads, including staff costs.

Today's reality also requires banks to recalibrate the concept of leadership, because each company is the result of the people who work there and the relationships that are established between them.

Among the measures adopted was strengthening the reserves destined for the Bank's share capital increase of Euro 101 million, which took place at the end of the year, a manoeuvre implemented for the moment only by the majority shareholder Libyan Foreign Bank. This last step will allow the Bank to build a better, more prosperous and profitable future as it will enable us, with a more solid capital base, to implement the investments foreclosed by the negative situation with which it closed the 2018 financial statements due to prudential provisions regarding NPLs for transactions with Italian customers in the construction sector involved in international activities.

The adjustments of value reflected, as always, the prudential approach deemed appropriate by the Board of Directors, in accordance with the relevant regulations. As shareholders, you are well aware that the financial year 2019 was certainly particular; the Bank's efforts were directed especially towards reviewing business strategies with the aim of ensuring – for the years to come – an economic recovery in line with the objectives set for a return to immediate profit.
The foregoing has opened a critical examination of the Bank's commercial strategies to create the necessary safeguards with the aim of implementing the business and, on the other hand, to mitigate the risk of a possible deterioration in creditworthiness.

In accordance with these considerations, the Board of Directors approved the business plan for the period 2020-2024 in November 2019, based on a tangible increase in the Bank's top-level capital in order to equip it with funds in line with its operational needs, to enable it to operate at its best in the reference markets which are characterised by economic weakness and social and political criticalities. In the hope that shareholders will look to the Bank with renewed confidence and continue to support it in every aspect – commercial, assets and organisational – I would like to thank the management and all employees for their commitment in this financial year characterised by an economic context that is arduous in political and social terms.

Sharef S. Alwan
Chairman of the Board of Directors

Mr. Mario Sabato

GENERAL MANAGER'S STATEMENT

The year ended 31 December 2019 was characterized by economic and financial recessions both in Italy and in the world The result achieved was marked by important allocations for NPL (impaired loans) which which led to a negative result.

The value adjustments made by the Board of Directors were deemed appropriate reflecting a prudential assessment in compliance with current regulations and on the basis of the new policy adopted.

During the period under review, the organisational changes that affected the Bank's structures and business were significant, with the sole objective of achieving greater efficiency consistent with the new sector regulatory rules introduced by European lawmakers.

At the end of December, it was also the year that saw the initiative to strengthen our asset base through the capital payment of Euro 101 million implemented by the parent company Libyan Foreign Bank (Tripoli), an amount recognised in equity reserves and included in CET1/TIER1. The technical increase in the Bank's share capital will take place in the new year, for the aforesaid amount or even greater, and will enable the Bank to operate at its best in the reference markets in line with the specific business development plan 2020-2024.

The Board of Directors has approved several important projects all aimed at achieving the proper balance between technical and organisational development and the launch of new business strategies in the referenceforeign markets.

The most important initiatives include:

- *Implementing the Arcares IT outsourcer services for the factoring business provided through the Milan office;*
- *completely revising the Bank's organisation chart so that decision-making is more immediate, all in line with the indications received in this regard from the Central Bank;*
- *opening new international markets worldwide and improving existing commercial relationships with some countries including Tunisia, where the Bank has decided to use the assistance and business development services of a consultant residing in Tunis;*
- *starting collaboration with Fintech Deposit Solutions for a different form of liquidity collection on international markets, as an alternative to the other existing ones;*
- *signing a number of collaboration agreements with regional Italian banks to maximize UBAE's operational capacity in the international field also through the issue of contractual guarantees abroad for tenders as well as the confirmation of letters of credit at the service of companies exporting Made in Italy products to specific geographic areas;*
- *signing a framework collaboration agreement with a primary foreign client under which Banca UBAE will provide training for the client's managers during 2020 while at the same time managing part of the company's liquidity in foreign currency;*
- *revising the internal remuneration policies for the members of the Board of Directors, in line with the current Bank of Italy Regulations as well as the decrease in the number of Directors (currently 9).*

Finally, we should also remember the important role played by our shareholders and among these in particular the Libyan Foreign Bank which offered constant and significant financial support to the Bank also during the year in question, in line with the spirit of close collaboration and determination to develop the intra-group international work for which this partner is a promoter.

Lastly, I would like to confirm my warmest appreciation and thanks to all those who made their effective contribution to the company during.

Mario Sabato
General Manager

BREAKDOWN OF ITALIAN IMPORTS/EXPORTS AND UBAE'S SHARE OF YEARLY TOTALS

EUR/mn

	2019		2018		2017	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS
LIBYA	4,714	1,243	4,190	1,210	2,786	1,090
BAHREIN	122	268	283	268	110	251
ALGERIA	4,341	2,921	5,710	3,091	4,958	3,178
BANGLADESH	1,473	550	1,398	741	1,382	728
EGYPT	1,929	2,420	2,107	2,688	1,824	2,918
PAKISTAN	739	685	654	801	629	757
LEBANON	37	1,176	42	1,383	41	1,517
SRI-LANKA	426	260	434	253	398	256
ETHIOPIA	70	204	57	235	49	277
ANGOLA	472	208	442	200	346	282
UNITED KINGDOM	10,653	24,915	11,141	23,451	11,404	23,130
MAURITANIA	121	23	95	28	109	31
OMAN	107	487	84	672	56	656
SUDAN	36	91	17	104	24	138
UGANDA	117	65	117	59	128	61
JORDAN	49	522	52	516	45	701
MOROCCO	1,122	2,068	1,024	2,028	1,005	1,885
TUNISIA	2,445	3,130	2,486	3,469	2,215	3,194
TURKEY	9,459	8,334	9,047	8,784	8,301	10,094
SWITZERLAND	10,943	26,028	10,954	22,358	11,178	20,611
YEMEN	6	73	8	44	9	61
PORTUGAL	1,966	4,308	2,000	4,162	1,759	3,982
DJIBOUTI	0	26	1	18	1	25
NEPAL	9	32	10	38	10	14
SPAIN	21,443	24,027	20,627	24,001	21,175	23,194
MALAYSIA	1,179	1,272	1,106	1,177	1,018	1,259
CHAD	0	7	1	4	1	8
KUWAIT	55	1,016	371	1,066	1,207	1,162
QATAR	1,343	1,386	1,549	1,093	1,170	933
TOTAL	75,378	107,744	76,006	103,942	73,340	102,393
UBAE'S SHARE	6	1,508	98	1,831	38	1,817
%	0.01	1.40	0.13	1.76	0.05	1.77

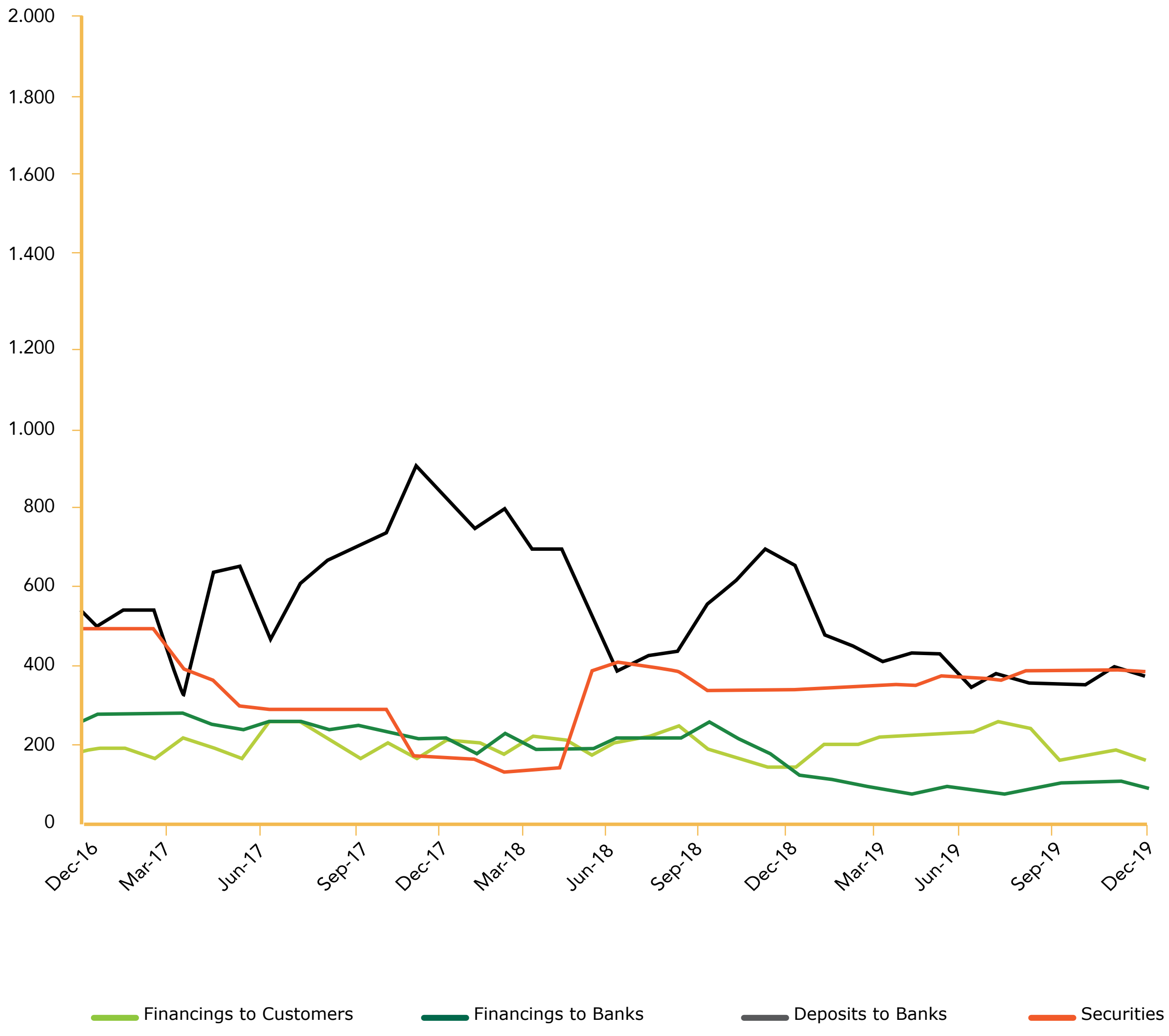
BANKING OPERATIONS IN 2019:

Brief Summary

BANKING OPERATIONS

Loans and Advances

The Bank's activity was mainly aimed at encouraging brokerage and financial intermediation in support of commercial operations with counterparties carrying out import and export operations or infrastructural works in the reference countries, with limited activities in the retail sector.
During the year under review, the worsening of the international economic situation and geopolitical tensions led to uncertainty and increased risks for financial stability. Despite this, UBAE's loans to counterparties in the banking and nonbanking areas remained in line with the previous year, while loans in interbank deposits suffered a decline since the sector no longer offered profitability margins in line with expectations.
The graph below shows the Bank's performance in the loans sector over the past three years



The short-term loans of a non-commercial nature to corporate counterparties, given their riskiness, but above all for their non-relevance to the Bank's core business, are of irrelevant volume and tend to be limited to customers to whom UBAE already offers its assistance for international trade finance operations.

In general, the current credit risk is not high and is appropriate for the Bank's size.

Operations on foreign markets

In 2019, UBAE's commercial and financial activities with its countries of interest has continued to represent – as has been the case for several years – the strength of the Bank and from which it has been able to draw appreciable economic returns that have nullified the latter from the prudential provisions made.

The trend of the world economy "seems to have bottomed out, but the expected recovery is fragile". This analysis comes from the International Monetary Fund and focuses on the tensions of international trade as being among the main risks for the prospects of global growth.

The estimated forecast of world GDP from 2.9% in 2019 to 3.3% in 2020 is at risk and in any case, in the medium term, "growth is destined to remain below its historical average".

In 2019, the gradual slowdown of the Chinese economy had repercussions on other countries through tourism and supply chains, together with the effects on the prices of raw materials. "The main sectors affected are the automotive and technological sectors which may no longer be a source of strong growth in the future".

There are also concerns about a new flare-up of commercial tensions with negative effects on investments and confidence. Even the climate is likely to be a risk factor. The increased frequency of natural disasters related to climate change could cause widespread economic damage and weigh on business. Geopolitical tensions that have increased uncertainty and risks to global financial stability are worsening the international economic situation.

The sharp reduction in interest rates globally increases debt sustainability and helps to contain the growth of macroeconomic risks; however, it may induce investors to seek higher returns in risky assets and encourage the accumulation of excessive debt levels. A prolonged phase of low rates can reduce profitability for banks. The international situation in which the Bank operates showed the following data: in the United States, the Gross Domestic Product (GDP) reached 2.3%. The BRIC countries should settle at around the following percentages: Brazil (+1.1%) and Russia (+1.3%) India (+5%) and China (+6.1%); for some these countries, negative corrections of the economies are forecast for 2020.

This economic scenario – characterized by the aforementioned unknowns – could cause the GDP forecasts to move slightly down. The International Monetary Fund has effectively reduced expectations of world GDP growth in 2020 - 2021.

In the euro area, growth has weakened and the risks of falling inflation have increased, the GDP stood at 1.2% in 2019; consequently the Governing Council of the ECB has adopted a broad package of expansionary measures. These include measures to mitigate the impact on the profitability of intermediaries deriving from the new reduction in the interest rate, already negative, applied to deposits with the central bank.

European banks are continuing to gradually strengthen their assets, the sector is solid overall, although there are still cases of vulnerability and high percentages of NPL. In several countries, the risks deriving from a possible overvaluation of realestate prices and the indebtedness of families have increased.

In Italy, where GDP stopped at + 0.3%, the risks to financial stability have slightly eased in recent months, following the drop in sovereign risk premiums. The deterioration of the macroeconomic situation and the high public debt continue to represent elements of strong vulnerability and expose the entire economy to the risks associated with a worsening of market tensions.The weakness of the economic cycle has a negative impact on the profitability of companies, but the unfavourable effects on the debt repayment capacity are mitigated by the low level of interest rates. The risk reduction for the assets of Italian banks continues, through the sale of impaired loans and selective lending policies. As tensions on sovereign debt eased, intermediaries resumed selling public securities.

Inflation in the euro area stood at around 1.6% while in Italy it remained low at 0.5% in early 2019.

In the countries of UBAE's traditional interest, the economic prospects for 2019 are not positive; in fact, the economies of the countries of North Africa and the Middle East (MENA) are exposed to a tightening of financing conditions, and strict provisioning regulations for assuming risks.

The worsening of financial conditions has already started to have an impact on several emerging market economies of the MENA countries and could have more serious implications if the "sentiment" of the world financial market suddenly deteriorates.

Furthermore, it should not be underestimated – for completeness of analysis – that the violent conflicts in geographic areas of interest to the Bank impose huge humanitarian costs and severe economic crises; while the direct effects are concentrated only in some countries such as Libya, Lebanon, Syria and Yemen, the indirect effects are spreading more and more throughout the region.

In this scenario that is not exactly easy to manage, the Bank has already revised its commercial and financial strategy for some time, adapting it to sudden changes in the economic conditions of the markets and, at the same time, seeking to seize the opportunities of the demand for credit and services of internationally-oriented customers, as well as their financial needs.
This strategy was illustrated in detail in an industrial plan (2020/2024) which envisages, in addition to important capital strengthening (which took place at the end of 2019), also the consolidation of trade finance operations as well as the increase in business volumes in the

geographical areas of traditional interest to the Bank and the entry into new countries, in order to geographically diversify its assets.

During 2019 the foundations were laid for UBAE to strengthen its role as a consultant and to become the preferred partner of Italian and international companies or financial institutions that wish to be, or to increase commercial, financial, industrial and economic relations with the African continent, the Middle and Far East and the Indian subcontinent.

Banca UBAE has tried, at the same time, to increase synergies with the main shareholders, especially in the African area, to diversify the countries of activity (Asian subcontinent) and aiming also to develop factoring activities with European counterparties.

The Bank's efforts also focussed on offering its customers tailor-made services to assist them in their growth and to offer full support for trading activities in money markets and foreign exchange markets. The promotional and marketing actions continued with incisiveness addressed both to the countries of interest with a view to stabilizing the market shares already acquired by overcoming international competition, and to new markets in the growth phase.

UBAE's activities oriented towards correspondent banks continued to increase commercial operations with the aim of confirming the number and value of letters of credit and international guarantees, also not related to oil activities.

In this situation, the Bank has been able to take steps to further expand its range of services and to support its customers who work with countries with traditional Italian export outlets, such as – by way of example but not limited to – Libya, Bangladesh, Senegal, Egypt and Algeria with assistance aimed at analyzing and evaluating new business opportunities and, at the same time, supporting it with commercial and financial activities.

UBAE's positive strategy of signing collaboration agreements with local Italian regional banks continued in order to develop the international business of their customers.

Revenues from commercial activities amounted to Euro 25.4 million (previously Euro 30.87 million) of which 55.75% deriving from commissions on letters of credit and guarantees, 44.25% from financing operations and commercial discounts, and3% from factoring desk activities.

With particular reference to the geographical origin of the aforementioned revenues, it should be noted that they were generated for 86.7% from abroad and 13.3% from Italy.

The factoring business sector concentrated in the operating desk at the Milan branch also found an appreciable result, reaching useful volumes at the end of 2019, especially considering the limited number of dedicated staff.

At the same time, taking advantage of the new tools available, Banca UBAE continued to carry out an accurate analysis and careful monitoring of customers in order to deal with any credit, market, reputational and operational risks.

At the end of the 2019 financial year, the counterparties entrusted were 511 of which 332 Italian and foreign banks and 179 customers operating abroad. In 2019, promotional actions continued for the development of work abroad, i.e. seminars and information forums together with missions aimed at implementing existing activities and at identifying new business opportunities with a view to diversifying income sources as much in the banks segment and in the corporate segment involved in international trade.

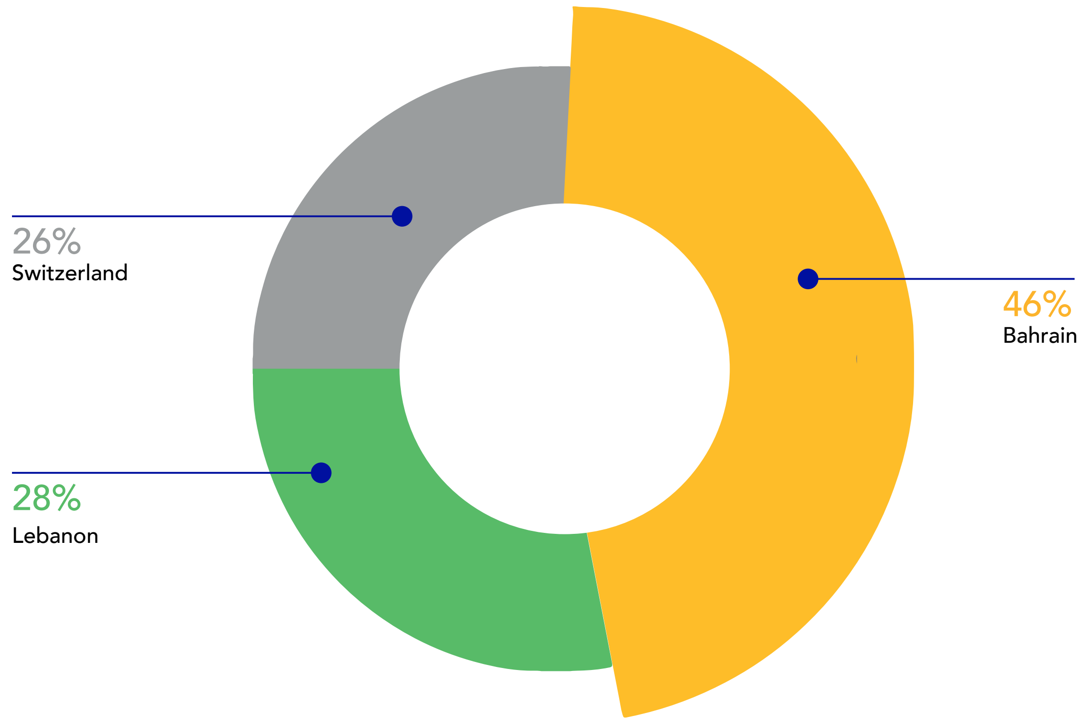
The Bank's first actions have been undertaken to expand into new markets such as Uzbekistan, Nepal, Kyrgyzstan which will already begin to bring the first profitable results from next year which, of course, will be consolidated in the coming years.

The most significant aspects of the operating dynamics that marked the year 2019 are individually described and commented on below; however fuller details can be found in the complete analysis in the explanatory notes to the Financial Statements.

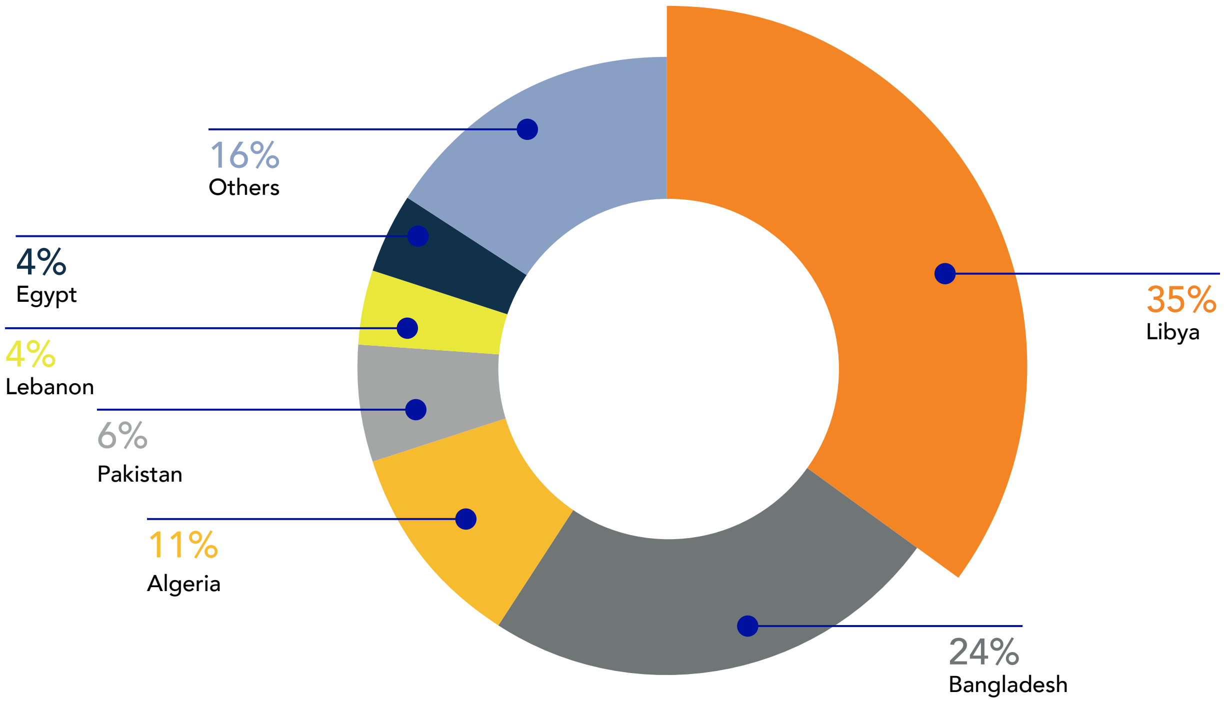
The composition by country of origin for letters of credit received and intermediated can be represented as follows:

Geographic distribution

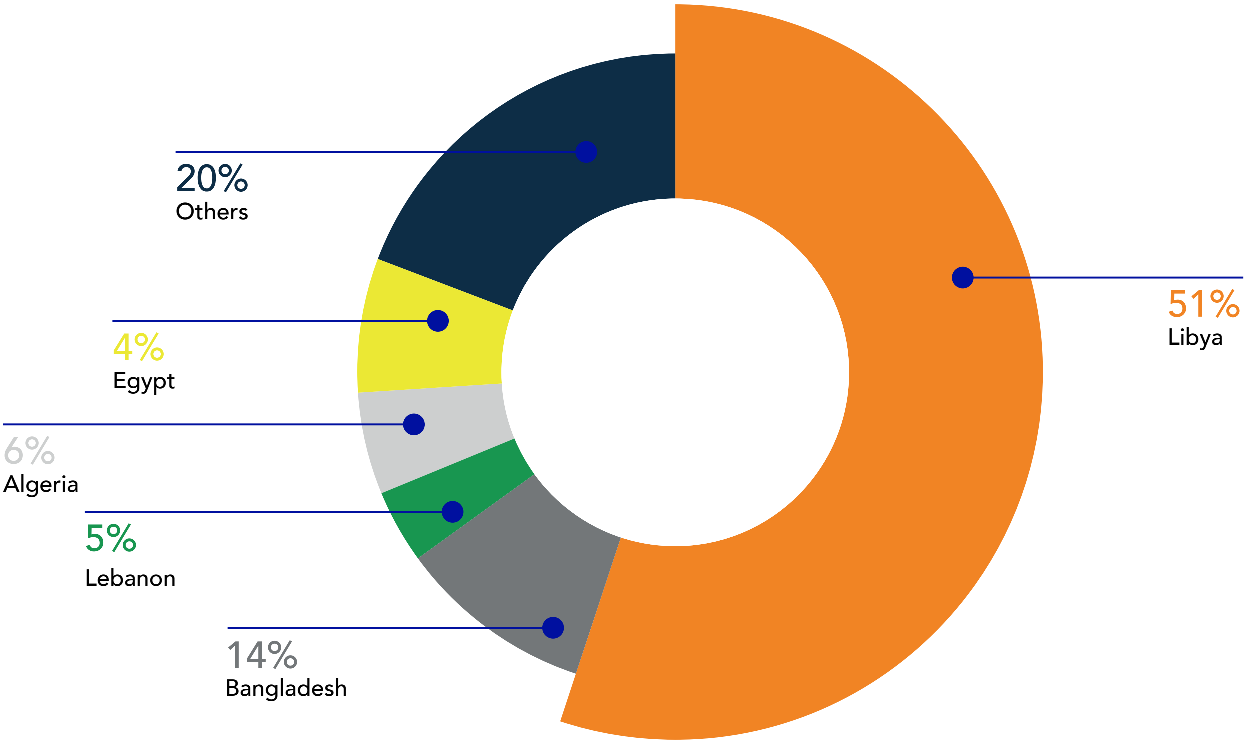
OIL L/Cs - Turnover 2019



NON OIL L/Cs - Turnover 2019



L/Cs - Commissions 2019



The analysis of annual data shows the following evolution:

EUR/000

	2019		2018		2017	
	VALUE/ NUM.	+/- %	VALUE/ NUM.	+/- %	VALUE/NO.	+/- %
LETTERS OF CREDIT: NUMBER	2,910	5.09	2,769	(2.19)	2,831	111,90
NON OIL LETTERS OF CREDIT: TURNOVER	1,144,020	(29.79)	1,629,360	(8.26)	1,777,680	33,17
OIL LETTERS OF CREDIT: TURNOVER	406,330	12.38	361,570	138.56	150,940	n.a.
% OF TOTAL EXPORTS		0.00		1.76		1,77
% OF TOTAL IMPORTS		0.00		0.13		
COMMISSIONS ACCRUED	10,169	(9.68)	11,259	(0.17)	11,278	44,18

The values recorded in 2019 testify, as already illustrated above, the difficult situation of some countries that suffer from economic and political instability with a direct negative impact on the volume of letters of credit and consequently on the revenues which, despite everything, stood at reasonable levels.

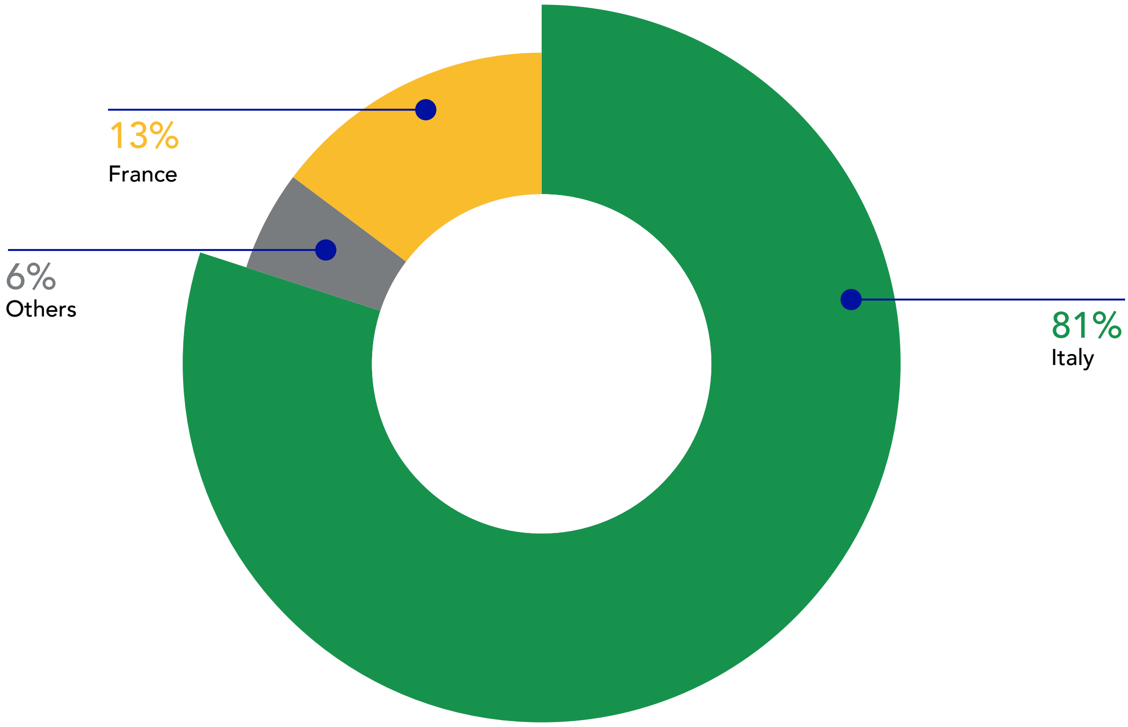
Analysis of the data for the guarantee sector shows the following trend:

EUR/000

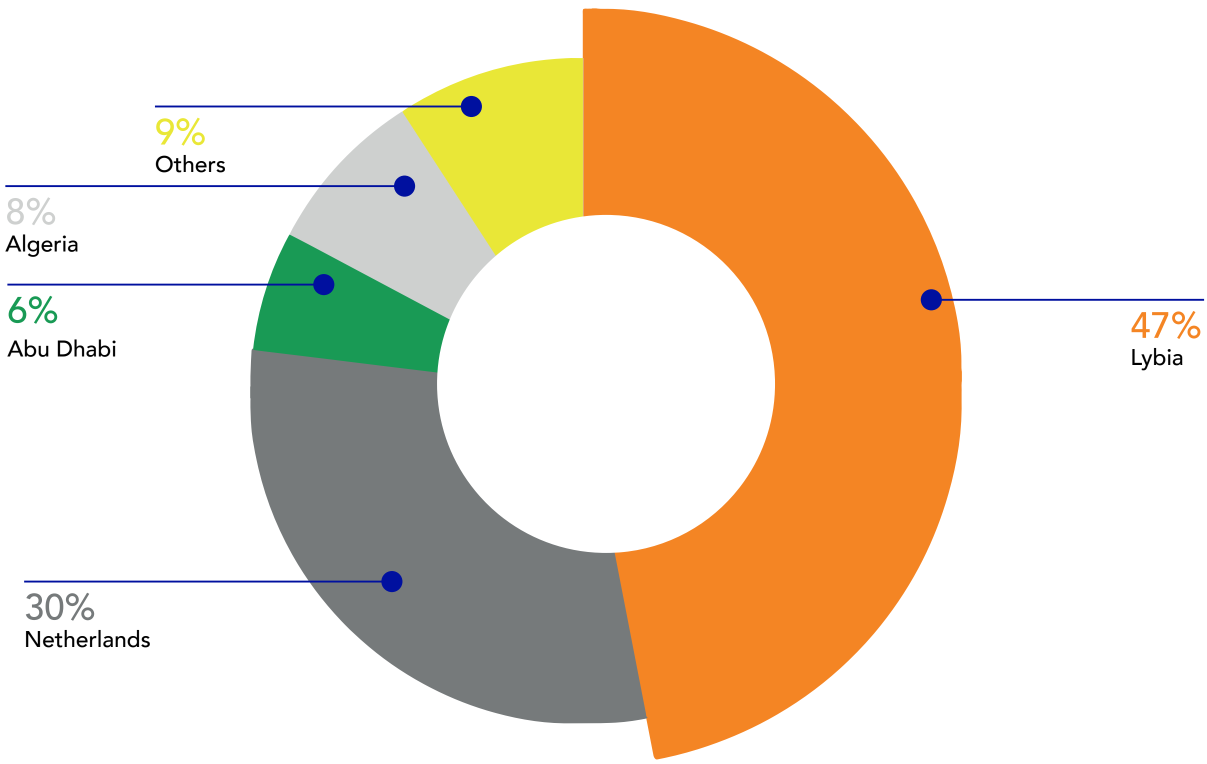
	2019		2018		2017	
	VALUE/ NUM.	+/- %	VALUE/ NUM.	+/- %	VALUE/ NUM.	+/- %
GUARANTEES ISSUED IN YEAR	51,657	(58.76)	125,258	2.15	122,617	(2)
GUARANTEES: OUTSTANDING AT EOY	375,971	(7.88)	408,131	(8.74)	447,205	(1.59)
COMMISSIONS RECEIVED	3,190	(13.20)	3,675	(7)	3,955	11,53

Guarantees issued mainly on behalf of Italian companies with high credit standing against exports and/or significant orders on foreign markets, have shown a decreasing turnover for the reasons set out above. However, income was satisfactory although decreasing by -13.20% compared to the same period of the previous year.

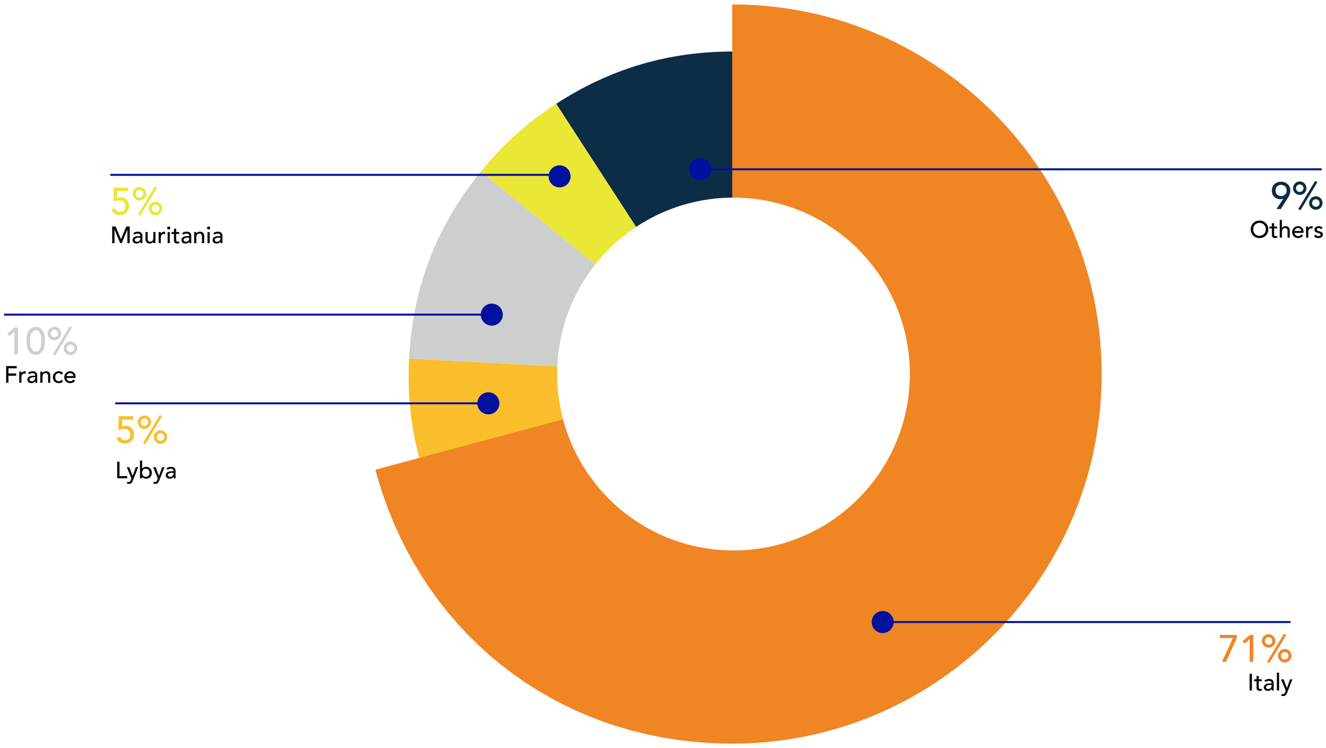
L/Gs - Applicant 2019



L/Gs - Beneficiary 2019



L/Gs - Commissions 2019



Activities on financial markets

The year 2019 also saw the Bank take action in the search for more profitable forms of commitment in relation to the financial resources collected by institutional counterparties as well as corporate customers.

The average volumes managed during the year were slightly down compared to those of the previous period.

This reduction is also due to the need to conduct prudent administration, because significant investments could generate risks that are difficult to sustain in terms of regulatory capital ratios.

The trend in funding, however, confirms that the main shareholder is confident of the Bank's ability to identify risk and return objectives, involving careful administration of the available funds and their remunerative management.

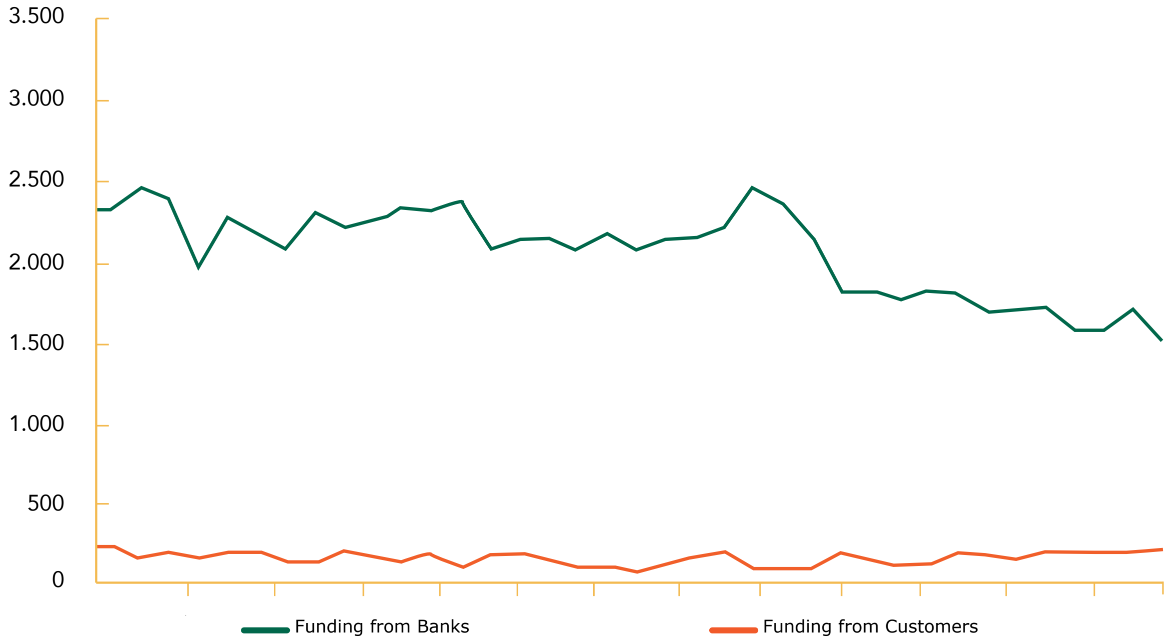
During 2019 Banca UBAE continued to pursue its business objectives by allocating the funds raised to support initiatives mainly connected (directly or indirectly) to commercial operations.

In this role, UBAE was facilitated by the Libyan Foreign Bank (LFB) which renewed two security agreements with the Bank, for a total of USD 415 million and 100 million euros, lasting one year and aimed, among other things, at stabilizing the Bank's fund collecting and enabling an increase in intra-group transactions in compliance with Banca d'Italia regulations on related parties.
The average amount of total deposits in the period (payable to banks and customers) and the percentage change compared to the previous quarter 2019, are summarised below:

FUNDING 2019 EUR/000

FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
VALUE	+/- %	VALUE	+/- %	VALUE	+/- %	VALUE	+/- %
1,950,459	(19.05)	1,930,656	(1.02)	1,852,165	-4.07	1,818,804	(1.80)

The trend of the main funding sources over the last three years is shown below (2017-2019):



Managing financial assets

The bank's securities portfolio, whose major investment is made in securities issued by the Italian Republic (Government Bonds), is functional and supportive for the management of the Bank's liquidity commitments. The increase in the securities portfolio has allowed management of treasury commitments increasingly characterized by the concentration of operations in specific periods.

In fact, during the year, the Bank decided to review the guidelines for loans in this sector, considering it advisable to favour more stable loans aimed at optimizing medium-term activities to guarantee suitable returns and at the same time ensuring an asset quality suitable for supporting the Liquidity Coverage Ratio (LCR).

The performance of the financial sector as well as the continuation of the financial crisis in some countries suggested a closer analysis of counterparties and yield margins, leading to a reduction in trading operations in order to identify, especially in the fixed assets sector, the most profitable opportunities designed to stabilize the flow of interest.

In this situation, the Bank continued to work to ensure acceptable returns and risks in line with those generated by other types of investment. The year 2019 saw the Bank continue to redefine the size limits of its securities portfolio, adapting them to business needs and following ad hoc resolutions taken by the Board of Directors.

The composition of the portfolio at the end of the year reflects investments made mainly in bonds issued by supervised intermediaries, Italian government bonds and securities issued by foreign governments or central institutions (including non-EU ones) with an average residual life of 1.89 years (average duration 1.84 years) for the trading portfolio and 3.96 years (average duration 0.8 years) for the investment portfolio.

The use of synthetic products, aimed at managing interest-rate risk, has brought the average duration to 0.28 years for the investment portfolio. In essence, the Bank maintained a portfolio of securities with a very low interest-rate risk profile.

The Bank's policy, given the manifest and contained propensity for this portfolio risk, was to limit lending on the stock market, with the aim of reducing as much as possible the risks that could arise from this sector, preferring investments in the bonds segment, both in variable and fixed-rate issues, linking the latter to synthetic products suitable for mitigating risks due to the volatility of interest rates.

a) investment portfolio (i.e. to be held until expiry, or availability for sale):

- floating-rate issues with profitability higher than the interbank rate, to be kept in the portfolio until maturity or availability for sale, and mainly issued by the Italian State, in order to ensure compliance with the regulatory threshold set for the Liquidity Coverage Ratio;

- fixed-rate issues, mostly due in the short term (also as hedging instruments) and issued by the Italian State, in order to ensure compliance with the regulatory threshold set for the Liquidity Coverage Ratio;

- issues of fixed-rate securities subscribed mainly by foreign banks (i.e. private placements).

Lastly, given the continuing uncertainty of the financial markets (and in compliance with the indications of its customers), UBAE has decided to postpone the use of new technical forms and management tools for the proprietary portfolio, such as harmonized products and collective savings investment bodies UCITS (in Italian, OICR).

Interbank activity

Activity in this sector continued to be strongly influenced above all by monetary policies that the ECB also confirmed in 2019.

Throughout 2019, the ECB kept rates at the same levels as in the previous year; in October 2019, the European Central Bank stated that 2020 will also see these levels, reaffirming at the same time the need to maintain a high degree of monetary accommodation for a long time until inflation in the Euro Area has reached the expected levels.

These monetary policies are aimed at expanding the money supply while waiting to encourage an increase in credit to businesses and families at acceptable economic conditions with the aim of restarting the economy.

The main rate remained unchanged at the all-time low of 0.00% – since September 2019, the rate on bank deposits has stood at -0.50% (formerly 0.40%) and the marginal lending rate at 0.25%.

In this situation, the Bank has reviewed its financial strategy by trying to achieve the maximum return possible from the opportunities that the money market has offered.

To analyse the result of the Bank's Finance area, it is necessary to take into account that the lending strategies in this sector were influenced not only by the low levels of rates on the money market, but also by the obligation to comply with the daily liquidity index (LCR) set by the regulators; given the particular temporal distribution of deposits received and the need to ensure an adequate balance between income and expenses, this obligation has increasingly influenced the financial choices for the use of funds.

Short-term loans on the money market and loans to foreign banks in the short and medium term decreased compared to the previous year also as a consequence of the different actions taken by the Bank to try to obtain acceptable spreads (on the money market) especially in the currency of the Eurozone.

The large amounts administered by the Treasury in the main currencies remained around Euro 2 billion in equivalent amounts substantially in line with the previous year.

Main results achieved during the year 2019

In light of the provisions made by the Bank both for commercial transactions towards the construction sector and for securities held by the Bank and issued by the Lebanese state, which defaulted in March 2020, the negative result achieved in the year in question, which was not unexpected, amounted to approximately -26 million euros (formerly -51 million euros in 2019 relating to the previous accounting period).

Summing up, the result is mainly attributable to the following aspects:

- the interest margin stood at **14.7 million euros** (+8% compared to 31 December 2018). The increase compared to 31 December 2018 is mainly due to the Bank's careful investment choices, above all towards banking counterparties resident in UBAE's countries of interest, despite the presence of an expansionary monetary policy pursued by the European Central Bank, with an impact direct on short-term interest rates especially in the interbank sector, while holding the spread at extremely low if not negative values;

- brokerage income stood at **11.4 million euros** (previously 18.4 million euros); while on the one hand the income for commissions on letters of credit and international guarantees has achieved a good result despite the crisis in the reference markets, the review of the Bank's strategy in the financial sector has affected its performance;

- the value adjustments and provisions for risk funds reflect the prudential assessment made by the decision-making body which, in line with previous years and in accordance with the Bank's new policy, deemed sufficient the amount of funds set aside to cover credit risks. Net value adjustments came to around **21 million euros**. The change is mainly due to the combined effect of higher analytical provisions for **14 million euros** on positions classified among nonperforming loans attributable to some of the Bank's traditional Italian corporate counterparties operating in the construction sector and for approximately **6 million euros** deriving from the application of the IFRS9 international standard as regards performing loans and securities (stages 1 and 2). The latter amount was affected by the write-downs relating to the Lebanese central government securities held in the AC portfolio. (see subsequent events).

With regard to the 2019 loss, the Bank prudently postponed the recognition of "deferred tax assets" from tax losses, potentially amounting to circa **23 million euros**. Taking into account the recent situation caused by the spread of the Covi-19 pandemic, which will have a significant impact on world economies, a new evaluation of the 2020-2024 business plan will be carried out to verify the existenceof those elements that will create in future years the conditions for incorporating these "deferred tax assets" into the financial statements. Please refer to the paragraph "Significant events occurring after year end".

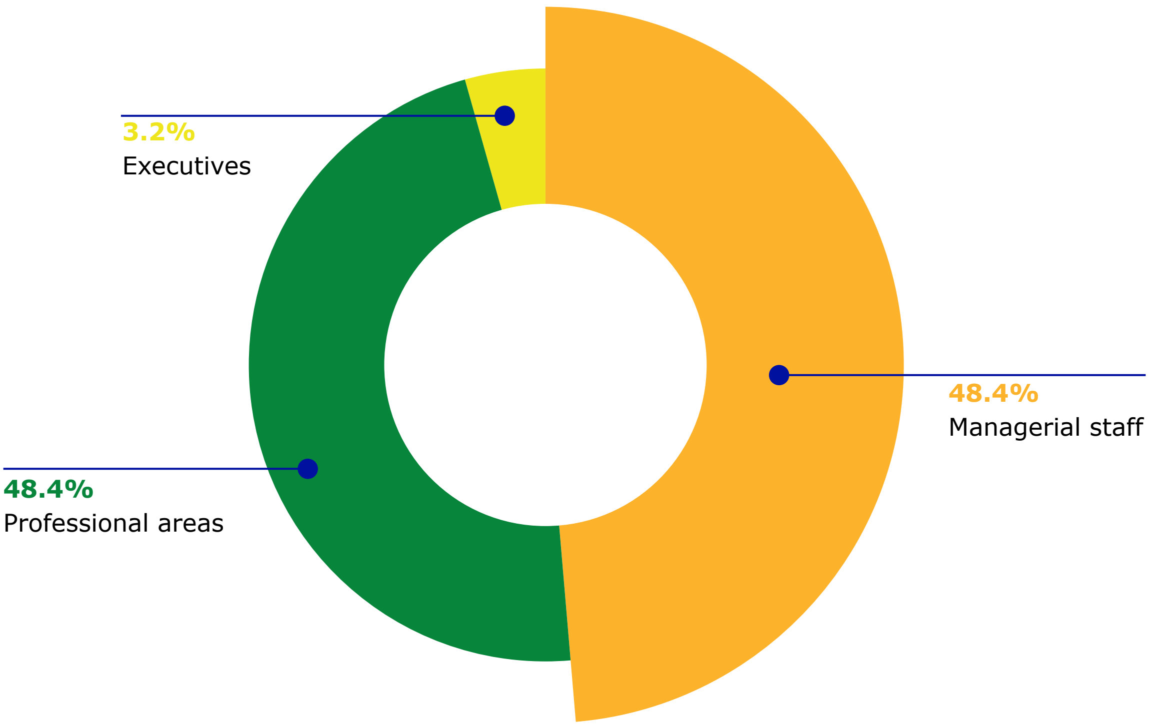
Lastly, it should be noted that the result also includes Banca d'Italia's decision, which took place in the first half of 2019, to make the entire national banking sector responsible for paying substantial contributions (ordinary and extraordinary) which are mandatory, to be paid to the Single Resolution Fund (FRU) and the National Resolution Fund (FNR).

For Banca UBAE, the total amount allocated to administrative expenses was approximately **1.9 million euros.** In any case, the Bank's action is to continue its development on prudent paths with particular attention to market opportunities as well as paying close attention to risks and operating costs.

ORGANIZATION AND PERSONNEL

1. PERSONNEL

During 2019, the Bank continued to build a reality based on people (and for people), on their ability and professional qualifications, their availability for prompt collaboration to satisfy customers and achieve positive economic objectives in the short, medium and long-term.
This spirit thus animates the strategic drivers that make Banca UBAE a reality constantly oriented and committed to the enhancement of its human capital. The path taken sees, therefore, the Bank's top management responsible for a process of continuous change based on the close interdependence between environment-strategy-structure through the creation of all the levers necessary for the care and development of its employees, thereby producing added value for the Bank and its shareholders.



During the year, attention focused on strengthening the main organisational functions (with particular attention to the internal control system) and business controls, as well as the natural generational turnover.

The workforce, which consists of 186 people, is distributed as follows in relation to the main categories:

- 3.2% Executives
- 48.4% Cadres
- 48.4% Professional areas

The table below highlights the dynamics of the composition of the workforce by qualification for 2019 and 2018.

	31.12.2019		31.12.2018	
	N°	%	N°	%
EXECUTIVES	6	3.2%	8	4.1%
CADRES	90	48.4%	88	44.4%
PROFESSIONAL AREAS	90	48.4%	102	51.5%
	186		198	

During 2019, the management was responsible for dealing with the following activities:

1. maintaining and updating the management performance system, aimed at a greater understanding and evaluation of professional performance; the focus was therefore on directing management's action towards objectives and behaviours that directly concern UBAE's business activities (identifying the critical factors of the Bank's success and translating them into objectives and organisational behaviour patterns);

2. launching a project to review the organisational structure and related processes in order to increase the Bank's efficiency and effectiveness;

3. consolidating a professional growth policy, also supported by internal mobility actions and professional career paths;

4. consolidating a reward and incentive system linked to performance and results;

5. promoting a culture of safety at work through training and information; in addition to the activities governed by legislative decree no. 81/2009 (for example, annual meetings, risk assessment, etc). Furthermore, Banca UBAE intends to continue the "medical helpdesk" project: this provides not only an interview with a specialist doctor not tied to mandatory visits, but also an opportunity for the Bank to "take care" of employees, offering a point of reference for their well-being;

6. launching a corporate welfare project, aimed at making available goods and services related to employees' work needs, as well as their personal and family life. This initiative aims to improve the business climate, to increase productivity, boosting staff satisfaction and motivation;

7. maintaining an integrated training system. As early as 2008, Banca UBAE started defining and carrying out training activities aimed at the growth of its staff. These activities provided the knowledge and skills necessary for the effective bank-business relationship regarding the Bank's core processes and regulatory innovations. Specifically, training activities were carried out linked to the mandatory training scheme (that is, the necessary updates relating

to the regulations on personal data management, safety of the working environment, privacy, anti-money laundering, administrative liability of entities, etc) and specialist issues (e.g. IFRS9, financial statements, Anacredit - Large Exposure reporting).

Please note that at the end of March 2020 the bank's staffing situation is as follows:

	31.03.2020	
	N°	%
EXECUTIVES	3	1.68%
CADRES	87	48.60%
PROFESSIONAL AREAS	89	49.72%
	179	

Particular importance is attached to the initiative launched some time ago (2014) relating to generational exchanges of personnel: this project is of a predominantly social character and provides for work turnover between parents and their grown-up children.

2. ORGANISATION, IT SYSTEMS, SECURITY AND PRIVACY

The Organisation and IT Systems Area is responsible for all those activities aimed at improving business operations, organisational structures, IT security, and regulatory matters.

As regards procedural activities on important management aspects, the impact in the past year has been strong in relation to the adjustments of the systems to the new regulations and developments in IT security.

During 2019, the Bank closely followed the changes in the IT system of the Cedacri outsourcer and the Arcares factoring platform, while monitoring the quality of the operations IT conducted.

Periodic checks on the performance indicators showed that Service Level Agreements (SLA) are in line with contractual terms. Furthermore, there were no incidents with a critical impact on the IT system nor any incidents that compromised its security. The Bank carried out periodic security tests on Internet and Corporate Banking applications from which no critical issues emerged.

In particular, Home and Corporate Banking services are monitored through an antifraud and cyber security service provided by a leading company in the security sector, while the Bank's corporate site and network traffic are constantly monitored by a Security Operation Centre.

With regard to security, specific attention was paid to payment systems. For example, during September 2019, in accordance with the requirements of the PSD2 (Payment Services Directive 2) regulation, the Bank activated strong "customer authentication" Strong Customer Authentication (SCA) - dual factor authenticationin online payment systems, respecting the standards issued by regulatory bodies, sharing and adopting the solutions used by our IT outsourcer.

With regard to network messaging, a new procedure has been introduced for managing Swift messaging complying with the standards required by the SCA which has removed the previous version which did not comply with the new requirements.

Furthermore, the formalisation of the questionnaire for the SWIFT CSP 2019 "Customer Security Program" sees the Bank fully compliant with the security criteria required by SWIFT.

The issues of safety and controls were the focus of important investments and adjustments to the technological infrastructures. Particular attention was paid to the procedure concerning IT risk. The guidelines on IT controls have been released and the ICT control library has been updated by including the main international frameworks and standards (Cobit, NIST and ISO 27001/13).

Finally, the new ICT 2020-2024 Strategic Plan was released and the framework on Cyber Security was prepared, also in compliance with Italian and European regulations. The document takes up the main industry standards and frameworks. The Bank has enhanced the Security Operational Centre making it possible to analyse events that are relevant to the Bank's IT infrastructures also through the use of sophisticated predictive analysis and artificial intelligence tools.

Particular attention was given to protection against email attacks with the activation of sandbox and anti-phishing systems together with anti-malware checks in general.

The workstations have all been updated to the new operating systems, and vulnerability assessment checks have been carried out regularly to adapt the security patches.

The workstations have been equipped with antivirus software which, again, provides for preventive checks of the flows using new tools and technologies based on machine learning and artificial intelligence.

Still on the subject of security, the Bank signed an absolute risk policy which ensures the hardware infrastructure, also covering IT incidents and any data breaches.

Regarding Privacy, another project has closely involved the department – the Bank launched a control plan in 2019 based on the requirements indicated in the privacy legislation (regulation no. 679/2016), with the Board of Directors' approval. The assessment carried out by external advisors confirmed the adequacy and compliance of the actions undertaken with the new privacy regulation.

Architecture and IT infrastructure: in the first half of 2019, the modernisation of the technological infrastructure in Rome and Milan was completed; the resilience of the systems has been significantly increased by acquiring highly reliable equipment and by designing a replication system on the recovery centre at our Milan branch with a minimal forecast of data

loss. Both sites are autonomous with regard to control, security and power systems.
The Bank has started a process of adopting Cloud solutions, preceded by careful assessments of IT security (in particular data security) especially in compliance with regulations, verifying the effectiveness of the solution and, last but not least, ensuring an adequate cost-benefit ratio.

With regard to disaster recovery and business continuity, the various tests shown in the annual Business Continuity plan were carried out without finding any critical issues; in particular for the Finance Area, the new connection operation via personal computer was successfully tested.

Business application development and maintenance: in 2019 several projects were undertaken involving the Organisation's resources; the most important sites were those aimed at introducing and respecting compliance of the following regulations: stabilising IFRS9, IFRS16, GDPR, Anacredit, PSD2, Shadow Banking Entities (SBE), MIFID II (Markets in Financial Instruments Directive), EMIR, FATCA and Anti-Money Laundering.

The factoring platform (called Arcares) has seen intense development and testing of the interfaces in order to fully integrate with the Cedacri IT system, which is expected to close by the first quarter of 2020. **In the area of data governance and data quality**, the outsourcer expanded the controls of the Finance Area in 2019 and added new controls for the Oversight areas. The Bank gives special attention to this issue and has started a project with Deloitte to boost the data governance system. The project involves an assessment phase of the architecture currently in operation and the identification of an activity plan that will see the release of a first data model focused on risk analysis together with monitoring and control.

Finally, in 2020, a first application for ICAAP processing will be implemented, using the new database. Particular attention is paid to the topics of anti-money laundering and transparency.

New procedures have been implemented for monitoring and controlling suspicious transactions and managing unexpected events, using the internal data infrastructure powered by the Outsourcer's IT system and subjected to prior data quality checks.
This database is also used for the self-assessment component required by law. Specific attention was given to due diligence and adequate verification, where the processes were reviewed and specifications for the development of an application were released; at the same time, the "Know Your Customer" component (procedure developed by Swift) was activated.

With regard to **Transparency**, the entire documentary system of the information sheets and summary documents was reviewed together with with the Compliance corporate function and, in accordance with PSD2, information letters were sent to customers warning them about third parties accessing their account information; at the same time, new tokens were released in accordance with the introduction of strong custodian authentication.

Information material on the new regulations and the new methods of access and use of payment systems has been included on the corporate website. A telephone helpdesk has also been activated not only for Italian and foreign customers but also for third parties as required by the regulations.

In the area of **Governance**, the IT risk procedure was approved and worksites began for the review of outsourcing policies, accidents, log management, operational procedures and guidelines for dealing with third parties. In 2020 a new report is expected to be released with the Board's approval, together with the progressive introduction of the COBIT (Control Objectives for Information and related Technology) and ITIL (Information Technology Infrastructure Library) frameworks.

3. EXTERNAL AND INSTITUTIONAL RELATIONS

The main activities of the External and Institutional Relations Department are:

- developing and consolidating institutional relations with Italian and foreign counterparties, such as embassies, ministries and multinational development banks;

- planning strategic projects of marketing and communications, and developing products.

The objectives underlying the Department's activities are aimed at innovation and the quality of the products and services offered to customers, whether represented by correspondent banks or companies, at the preservation of the corporate reputation and the correct transmission of its image, also through monitoring and constant updating of the corporate website.

The drivers that guided the activities throughout the year are focused on four main areas.

A. Development of External and Institutional Relations

The projects related to this sector of activity play an important role within the Department and provide for the development of synergies with entities and institutions through the establishment of partnerships, with the common goal of offering tangible support to Italian companies with interests in the markets where UBAE is operational.

During 2019 numerous collaboration agreements were set up, amongst which the most important with: Cassa di Risparmio di Volterra, Banca Popolare S. Angelo, Banca Popolare di Ragusa, and Banca di Pisa e Fornacette.

B. Corporate identity and external communications

An integral part of the Department's activities is managing the corporate identity, coordinating its image, and boosting brand awareness amongst markets, customers and competitors.

To this end, the most significant activities carried out refer to:
- relations with press agencies;
- drawing up press releases and articles;
- creating and producing brochures and sales materials;
- dealing with content and graphics for the corporate website;
- institutional communication in the online newspaper Siena news;
- revising and updating company forms based on input from the offices concerned;

- coordination of the graphic layout, printing and compliance check of the Financial Statements;
- membership fee management and relations with the Associations and Chambers of Commerce of which we are members;
- publication updates (Bankers' Almanac, ABI Yearbook, etc) on input from the offices concerned;
- analysis of advertising and sponsorship proposals, only if in line with corporate values, communication strategies and commercial objectives.

C. Business Development

Activities carried out in collaboration with the Commercial Area and the Finance Area, aimed at increasing our Bank's strategic opportunities and consolidating relations with the main Italian and foreign customers. The initiatives implemented in 2019 focused mainly on organising round tables and training seminars aimed at Italian and foreign customers anddelegates of correspondent bank

The main activities included:

- **Forum Italy-Africa Business week (IABW)** 26 – 27 November, Milan
  In the presence of over 400 participants, Ambassadors of African States in Italy, Italian Institutions, including executives of Milan Municipality and Lombardy Region, the Italian Vice Minister of Foreign Affairs and International Cooperation Ms Del Re, delegates of internationally oriented small and medium-sized enterprises, the General Manager of Banca UBAE illustrated and promoted the Bank's potential.

- **3rd International Conference on arbitration and investments in Libya,** 19 November, Milan
  This Summit, sponsored by the Italian Ministry of Foreign Affairs, saw the participation of over 100 delegates including companies and representatives of the Italian and Libyan legal world. The Italian Sales Director and Head of UBAE's Factoring Desk, Mr Germano Chiesa, described the Bank's products and services for the audience.

- **Festival of Diplomacy**, 21 October, Rome
  As part of the tenth edition of the Diplomacy Festival, a conference was held on "Libya, a country to be rebuilt", sponsored by the Ministry of Foreign Affairs, the European Commission, the European Parliament and with the patronage of the Senate of the Republic. For this occasion, UBAE's General Manager illustrated the potential of the Bank to the numerous journalists and delegates of Italian and foreign companies.

- **International Arab Banking Summit**, 25-26 June, Rome
  Banca UBAE took part in the "The International Arab Banking Summit", an important event sponsored by the Italian Prime Minister with the participation of the Italian Banking Association and several Ambassadors of foreign States in Italy, delegates of Italian and foreign banks, Governors of foreign central banks, Directors of the World Bank and CEOs of the major Arab banks of the Mediterranean and Gulf area, interested in the two-day conference on traditional and Islamic finance.

The event, which was attended by Banca UBAE's senior management, also saw the participation of delegates from Italian institutional counterparties and corporate entities, including some from abroad interested in the development of international business, as well as several media delegates (newspapers and foreign TV channels).

- **MEDGULF & AFRICA, Growth areas and development strategies**, 20 March, Milan
  Banca UBAE took part as sponsor in this important European Colloquium, organised by the ISTUD Foundation, together with the Regional Representation of the European Commission in Milan. The General Manager illustrated UBAE's products and services to over 100 delegates from participating companies.

- **Trade Banking Seminar**
  Training seminars, organised on an international business model, aimed at our foreign correspondents and structured on the specific requests of the participating banks; in 2019, representatives of major banking institutions resident in Egypt, Jordan, Lebanon, Turkey, Pakistan, Bangladesh, Angola, Djibouti, Ethiopia, and Bahrain took part.

- **Training on the job**
  Theoretical-practical training courses involving the support of UBAE's expert staff to train participants from banks and corporate customers.

D. Strategic analysis

Drawing up reports and analyses aimed at providing a clear and concise framework to the General Management and the Commercial Area on issues of interest to support strategic decisions such as: preliminary analyses on business potential with new products and new countries (country reports), presentations at conferences, round tables and workshops.

4.RISK MANAGEMENT

The Bank continued to apply the procedures and methodologies for calculating the total internal capital, as described in the ICAAP reports (Internal Capital Adequacy Assessment Process). It also operated in compliance with national and international regulations, maintaining careful monitoring of exposure to risks, in particular by boosting the liquidity risk management process also in light of the ILAAP prescribed by the regulations (Internal Liquidity Adequacy Assessment Process) and continuing to integrate the analysis in terms of capital adequacy with the measurement of country risk, geosectorial concentration risk and strategic risk, together with the assessment of concentration risk, transfer risk and the risk of excessive leverage.

From an organisational point of view, the ICAAP/ILAAP report, in addition to defining roles and responsibilities of the various internal units involved in the process, outlines the management phases for each type of risk (measurable and non-measurable) and regulates the methods for calculating the internal capital, stress testing methodologies and prospective analysis techniques. With reference to the ILAAP process, stress scenarios are also defined, quantifying the impact of a liquidity crisis in terms of capital ratio, thus bringing about the integration of

ICAAP, ILAAP and RAF.
It should be noted that, for the purposes of applying the prudential regulations issued by Banca d'Italia, and in particular the risk measurement methods envisaged by Pillar II, Banca UBAE falls into class 3 of intermediaries, characterised by the adoption of simplified methodologies for measurable risks and mitigation policies, as well as procedures for non-measurable risks.

For the purposes of the capital adequacy analysis, the three additional prudential requirements for country risk, geo-sectorial concentration risk and strategic risk are also considered. These requirements are not prescribed by legislation, but have been included in the internal capital adequacy assessments with the aim of considering all the relevant risks for the Bank's business. In particular, the country risk, estimated according to an internal calculation method, is considered precisely to take into account the exposure of the Bank generated by the specific operations carried out in certain geographical areas. It should be noted that the regulatory framework for the internal control system also includes the inclusion of country risk (and transfer risk) among the list of risks to be subjected to analysis in the ICAAP context.

The definition of a risk management process, consistent with the strategic choices adopted, represents a prerequisite for the pursuit of the risk policies adopted by the competent corporate bodies.

The aim of the prudential control process is to continuously ensure compliance with the capital requirements (with reference to both the risks considered in Pillar I and the quantifiable risks considered in Pillar II, as well as the risks deemed relevant by the Bank) and to provide the Board of Directors and the General Management with the information necessary to set up the Bank's capital strengthening policies efficiently and effectively.

This process contributes to pursuing the following specific objectives:

- raising awareness amongst senior management about risk and asset planning issues;
- making the Bank aware of exposure to the various types of risk deriving from the conduct of corporate business;
- introducing in the field of measurement additional types of risk (such as concentration, interest rate on the banking book, as well as country risks, geosectorial and strategic concentration);
- strengthening the organisational controls and management tools for other risks (liquidity risk, risk of excessive financial leverage and reputational risk);
- underline the need to have increasingly efficient and adequate risk measurement and monitoring tools;
- broaden the time horizon of internal analyses (prospective analysis) and the reference scenario (stress testing);
- improve the strategic planning process by introducing capital policies strictly connected to the Bank's risk profile and therefore to the results that emerge from the ICAAP and ILAAP reports, as well as the levels of risk appetite established by the strategic oversight body (Risk Appetite Framework - RAF).

Regarding changes in the regulatory environment, the Bank initiated study activities, impact analyses and internal development projects during the period under review, sometimes also involving external specialist support.

In particular, the following issues were addressed:

- **Risk Appetite Framework** – during 2019 the system of risk appetite limits was revised, taking into account the new capitalisation limits and the historical and prospective trend of the Bank's risk profiles. The inclusion of liquidity risk, money laundering risk and IT risk was also envisaged, for which systems for monitoring and assessing corporate exposure are outlined since quantification of the capital requirement is not provided.

- **In the area of IT risk**, the following documents have been prepared: IT risk methodology, procedures for calculating and producing IT risk documentation and managing the data processing register have been started (Reg. EU 679/16), as well as the strategy for IT security governance system, outsourcing policy, IT security policy, guidelines for dealing with third-party management, incident management and asset management procedures, procedures for access management and backup. In 2019 periodic checks of infrastructure vulnerability were carried out with specific tests (penetration tests) of the exposed services, in particular the methodology for ICT controls was released and the ICT control library was revised, extending the ISO 27001 perimeter with COBIT controls and specific for Cyber security. A Cyber security framework was also implemented, adapting it to the reality of the Bank, taking up the NIST standards, the variant of the CIS – the national framework for cyber security/data privacy and the control library developed by the DXC company. On the other hand, projects for the selection and implementation of a data governance and data quality solution together with a datamart for regulatory risks (Pillar I and Pillar II) consistent with the Bank's RAF have been scheduled for 2020; the definition of processes and the possible use of tools for programming IT resources and the economic evaluation of ICT projects are also planned. Also there are plans to further implement the ISACA Cobit framework. The Bank will participate in the RED Teaming and Table Top tests organised by ABI's national CERTFin-REDFin groups.

- **IFRS9** – Quarterly activities continued regarding the determination of impairment based on forward-looking PD and LGD data and, in March, the macroeconomic model was revised. At management level, the expected credit loss information is processed for each counterparty subject to assignment and/or revision in order to complete the information intended for the decisionmaking bodies.

- **Recovery plan** – during 2019, on the basis of the indications received from the Oversight Body, the Recovery Plan was revised and integrated, in particular by providing new recovery indicators, recalibrating the attention thresholds in light of historical and prospective trends and current regulatory limits, and by expanding the set of stress scenarios. The organisational procedures (escalation process, responsibility for recovery options and internal policy for the preparation and/or updating of the recovery plan) have also been duly updated. The updated version of this Plan was approved by the 261st BoD on 20 December 2019 and was sent to the Oversight Authority. During 2020, monitoring and reporting activities of the recovery indicators and the related new thresholds will be launched.

Shadow Banking System – During 2019 a monitoring tool was implemented to verify compliance with regulatory limits and internal limits defined for shadow banking entities (SBE). In the early months of 2020, the related regulatory procedures will be issued and the monitoring and related internal reporting for senior management will become operational.

ILAAP – Internal Liquidity Adequacy Assessment Process – as regards the liquidity risk management process, the internal policy was revised in order to incorporate the changes made to the internal operating limits, the new warning thresholds set for the LCR indicator within the recovery plan and the ILAAP process. The new version of the policy was approved by the 251st Board of Directors on 25 January 2019.

Credit risk – during 2019 the policy governing the credit risk management process was revised in order to deal with the peculiarities that emerged during the implementation phase and to integrate the regulatory framework with a section dedicated to the definition of an NPL strategy and plan. These specific management phases have been linked to a new system of internal operating limits expressed in terms of NPL ratio and Coverage Ratio which are suitably integrated with the set of thresholds outlined in the recovery plan.

Strategic Plan 2020-2024 – in the last quarter of 2019 the Bank took steps to define a new strategic plan for the 2020-2024 period, taking into account the observations made by the Oversight Body. The processing activities followed the quantitative and qualitative drivers, the latter with the aim of remedying the management inefficiencies highlighted during the inspection. The sustainability of the strategic lines was also verified from an ICAAP and RAF perspective in order to ensure the necessary integration between the main corporate processes. The new strategic plan was approved by the 260th Board of Directors on 21-22 November 2019 and will become fully operational as soon as the planned capital strengthening process is finalised.

By June 2020 (ex April 2020) on, the ICAAP / ILAAP report (relating to the assessment of capital adequacy and the liquidity risk management process as at 31 December 2019) must be approved by the Board of Directors and sent to Banca d'Italia. As regards disclosure to the public, the Bank will release the qualitative and quantitative information tables prescribed by Pillar III of the regulations, on the corporate website in the Financials area within the deadlines set for publishing the financial statements.

• Dealing with Credit risk and Counterparty risk

Credit risk is the risk of suffering impairment of assets due to the deterioration of the counterparty's creditworthiness.
Counterparty risk, on the other hand, is the risk that a trading counterparty will not fulfil its obligations at the end of the contract; once the contractual deadline has passed, in the event of

non-fulfilment, the counterparty risk is transformed into settlement risk.
The criteria for sound and prudent credit risk management have an impact on the granting, monitoring and reviewing of credit lines.
In particular, for credit risk, the following steps are taken:

- the systematic release of entry scoring, both for banks and corporate counterparties;
- *periodic performance monitoring of loans with evidence of internal anomalies (overruns) and external ones (Risk Centre);*
- regular stress testing.

The exposure to credit and counterparty risk is constantly monitored in terms of compliance with the operational credit limits (performance control) – by a specific unit of the Credit and Control Department – and deterioration of the quality of the portfolio in terms of capital absorption (credit risk control) - by the Risk Management Department.

The measurement of internal capital against credit risk is carried out by applying the standardised method as required by current legislation.

Furthermore, for ICAAP purposes, the Risk Management Department performs scenario analysis with a view to stress testing, simulating the impact on the capital requirement generated by certain information shocks such as the default of sovereign States, certain economic sectors or the deterioration of the domestic or international economic situation.

Activities are also underway to improve the credit risk monitoring and reporting process with particular regard to non-performing positions.
As for counterparty risk, the Risk Management Department, in collaboration with the Finance Department, monitors daily exposures to the "mark-to-market" in order to check compliance with the credit lines granted to each individual counterparty.

The measurement of internal capital against counterparty risk is carried out by applying the current value method as required by legislation. In compliance with the current regulatory framework (Basel 3), the capital requirement is also calculated for the risk of Credit Valuation Adjustment (CVA).

• Dealing with market risks

The following risks are included within the category of market risks:

- **exchange rate risk**: the exchange rate risk represents the risk of suffering losses due to adverse changes in the prices of foreign currencies on all the positions held by the bank regardless of the allocation portfolio;
- **position risk***: risk that derives from the fluctuation of the price of transferable securities due to factors relating to market performance (generic position risk) and the situation of the issuing company (specific position risk). In particular, note the interest rate risk (on the trading book) concerning the risk of suffering losses in value of assets or increases in value*

of liabilities due to adverse movements in market interest rates;
- **settlement risk**: transactions in debt securities, equity securities, derivative contracts, currencies and commodities, regardless of their portfolio, not yet settled after their expiry date, exposing the Bank to the risk of loss deriving from the failure to settle the transaction.

The operations of the Finance Department and compliance with the operating limits set by internal regulations are constantly monitored by the first and second level control functions through access and use of the ObjFin front-office platform. The reports, produced on a daily basis, have been divided amongst the various units and have as their object the composition of the positions, their performance and the values of the various risk and sensitivity indicators (VaR, Stop Loss).

Compliance with internal operating limits was monitored daily and any anomalies were promptly reported to the structures involved to allow for the appropriate corrective actions and/or the start of the authorisation process governed by internal regulations.
Lastly, the Risk Management Department prepares a monthly report for the Risk Committee and the BoD concerning the monitoring activities carried out, the exceptions found and the performance analyses conducted. The measurement of internal capital against market risks is carried out by applying the standard methods provided for by current legislation.
Banca UBAE did not request the recognition of internal models for the purpose of calculating the capital requirement for market risks.

• Managing operational risks

Operational risks represent the risk of losses deriving from the inadequacy or malfunction of procedures, human resources, internal systems, or from external events (this definition includes legal but not strategic and reputational risk). Despite having opted for the basic calculation method (Basic Indicator Approach) in determining the capital requirement required by current regulations, the Bank has started the implementation of an operational risk management system capable of assessing and monitoring exposure over time to operational risks and the extent of the losses that could result. To this end, the Bank continued its project activities aimed at implementing a "transversal" tool which, through common mapping (of processes and standards), could be used in an "integrated" perspective for risk assessment and loss data collection activities. Once the project has been completed, the internal policy regarding operational risk management will be defined.

• Dealing with other risks

- Liquidity risk

Liquidity risk represents the risk of not meeting requests for reimbursement of liabilities, unexpected in terms of volume and/or expiry in time, due to an inability to obtain funds (funding liquidity risk) or limits on the disposal of assets (market liquidity risk).

The exposure to liquidity risk was constantly monitored by the Finance desk, while the Risk

Management Department was responsible for second level monitoring of the operating limits set by internal regulations, as well as preparing the weekly report for Banca d'Italia.
The risk management process is governed by the internal policy and provides for a contingency funding plan. The internal operating limits system currently includes several internal attention thresholds for the Liquidity Coverage Ratio (hereinafter LCR) in line with the Recovery Plan. Performance monitoring concerns earlywarning indicators, concentration funding ratios and monitoring tools. The internal policy has been updated to ensure its integration with the Recovery Plan, the escalation process governed by it and the ILAAP process.

From the point of view of the instruments, the Bank uses the JCompass tool connected to the Cedacri IT provider system and an automatic tool for the daily processing of the LCR (Liquidity Coverage Ratio). Lastly, pending EU legislation to provide for a minimum regulatory limit, the Bank reports on a quarterly basis the components of the Net Stable Funding Ratio (NSFR) structural liquidity indicator, consisting of the ratio between the amount of stable funding available and the amount of compulsory stable funding. It aims to ensure that long-term assets are financed with an adequate stable funding level.

- Concentration risk

Concentration risk arises from exposures to counterparties, groups of related counterparties and counterparties belonging to the same economic sector or exercising the same activity or belonging to the same geographical area. In essence, it is the risk of suffering losses due to the correlation existing between the counterparties in question.
The current prudential regulation (Pillar II) provides for a specific capital requirement to take into account the concentration by counterparty or by groups of related counterparties (for the corporate portfolio). For the quantification of internal capital (according to the simplified methodology provided for by the legislation), the Bank made use of a calculation tool fed with the data of the oversight reports. With a view to stress testing, the Risk Management Department conducted internal simulations quarterly to assess the impacts of any strategic and operational changes.
The Bank also integrated the internal measurements, providing for an additional capital requirement against the geo-sectorial concentration risk determined according to the quantitative methodology developed by the trade association applied to the portfolio of Italian companies.
With regard to the single-name concentration risk with respect to banking counterparties, UBAE has a system of internal operating limits subject to quarterly monitoring and reporting, which effectively reduces this risk exposure. With regard to the concentration risk by economic sector and geographic area, for which the legislation does not prescribe any quantification, at the moment the Bank has decided to use a qualitative assessment of the credit portfolio as a whole.
In 2019 the tool dedicated to the automatic monitoring of internal and external limits was implemented and in the early months of 2020 it will become fully operational.

- Interest rate risk on the banking book

The **interest rate risk on the banking book** represents the risk of suffering impairment of assets due to adverse movements in market interest rates.

Compliance with the internal operating limit prudentially set below the regulatory threshold is monitored by the Risk Management Department, through the treasury's integrated JCompass product.
For ICAAP purposes, to quantify the internal capital (according to the calculation algorithm provided for by the legislation), the Bank uses an ALM computer product (ERMAS) powered directly by the accounting offices and capable of providing the maturity ladder. Stress tests were also conducted using this product, assuming parallel and non-parallel shifts in the interest rate curve. In compliance with the current regulatory obligations, the measurement of the effects produced by a shift in the rate curve cannot be quantified only in terms of changes in the economic value but also in terms of changes in the interest margin.
Lastly, the internal policy governs the interest rate risk management process on the banking book, providing, in addition to the regulatory limit (risk indicator) and the limits established with a view to RAF (risk appetite framework), operating limits for the accumulated gap; this system makes it possible to check the relevant attention thresholds and any internal authorisation thresholds to be activated in case of exceeding the limit.

- Country risk and Transfer risk

Country risk represents the risk of losses caused by events that occur in a country other than Italy. The concept of country risk is broader than that of sovereign risk as it refers to all exposures regardless of the nature of the counterparties, be they natural persons, companies, banks or public administrations.
Transfer risk represents the risk that a bank, exposed to an entity that finances itself in a currency other than that in which it receives its main sources of income, makes losses due to the debtor's difficulties in converting its currency into the currency in which the exposure is denominated. For internal analysis purposes, this regulatory description is expanded to include also the risk associated with restrictions, imparted by the Authorities, on capital movements and on the repatriation of dividends and profits.

In light of the prevalent international nature of the Bank's operations, the political risk associated with some countries on which the business is concentrated also required close attention in 2019. From the managerial point of view, the granting of a usage limit for each country is envisaged, which is the responsibility of the Board of Directors, and which regulates the credits towards those countries that have a rating lower than BBB or that do not have one.
From the point of view of quantifying risk exposure, the Risk Management Service has already introduced an internal estimation methodology for several years aimed at determining an additional capital absorption against country risk and which integrates internal analyses in terms of capital adequacy. This capital requirement, although not required by law, is calculated according to an internal estimation method based on exposure data for the purpose of oversight reporting and on the probability of banking or currency crisis differentiated by country.

With regard to transfer risk, the Bank has decided to include this risk, from a quantitative point of view, in the wider context of country risk; while from a qualitative point of view, the assessment of this risk is obtained by analysing the composition of the credit portfolio and determining the relevance of the exposures to countries belonging to the transfer risk classes provided by the trade association (ABI).

- Risk of Excessive Financial Leverage

The **risk of excessive financial leverage** represents the risk that a particularly high level of indebtedness with respect to own resources makes the bank vulnerable, hence requiring corrective measures to its business plan, including the sale of assets with accounting for losses that could also involve value adjustments on the remaining assets.

The risk of excessive leverage is included among the risks to be subjected to assessment in the ICAAP context and, although the minimum thresholds have not yet been established by the Oversight Authority, a specific leverage ratio has been introduced (Leverage Ratio).
The internal policy governs the methods for identifying, assessing, measuring and monitoring the risk itself. In particular, the Bank has decided to monitor the level of the leverage ratio by providing for compliance with an internal limit and defining an early-warning threshold, as well as providing for its inclusion among the recovery indicators established by the new version of the recovery plan.

- Strategic risk

Strategic risk represents the risk of not achieving the objectives in terms of expected economic results due to the volatility of the market scenarios (business risk) and errors committed when setting up and executing the operation (pure strategic risk).
Strategic risk has always represented a high level of management complexity and required qualitative and scenario assessments in order to quantify the possible impacts deriving from changes in the operating and/or regulatory context. The Bank is institutionalising a process of formulating scenarios necessary for the construction of the annual budget and the three-year strategic plan and for the measurement of the variability of the intermediation margin, the latter, as an approximation of the risk and as a measure of an additional capital requirement which integrates and completes the analyses in terms of capital adequacy.

- Reputational risk

Reputational risk represents the current or prospective risk of a decline in profits or capital resulting from a negative perception of the Bank’s image by the various stakeholders (customers, counterparties, shareholders, investors, oversight authorities, markets in general).

Due to the complexity inherent in its treatment, this risk requires qualitative assessments and mitigation policies, in particular preventive actions with respect to the manifestation of the harmful event.

Although the quantification of capital absorption is not foreseen, the Bank has defined its internal policy for managing reputational risk which, in addition to defining roles and responsibilities for the various internal bodies involved, outlines the model of harmful events, identifies the policies of mitigation necessary to reduce negative effects and/or to prevent the occurrence of the harmful event and establishes intervention strategies should a “reputational crisis” occur.

5. MANAGEMENT REPORTING

During the 2019 financial year, the Bank continued to refine its internal synthesis and management reporting systems with a view to developing a prompt “information system” capable of ensuring an ever-greater usability of analytical and reconciled data.

Thanks in part to IT projects in progress, management control has sought to increase the time-to-market of data by supporting not only the communication needs of corporate bodies and the Bank as a whole but also facing the evolution of planning needs while constantly checking the results.

In order to standardise and improve the business processes of production and data analysis and expansion of internal reporting systems, the department has been involved in the development of management tools, integrating them with the new sectors of the Bank’s IT architecture.

This constant enrichment and enhancement of the IT systems, carried out in collaboration with the SSO department, has enabled the Bank not only to improve the effectiveness and efficiency of the system in use but also to obtain greater availability of daily data and monthly reports aimed at assessing the Bank’s balance sheet, its income capacity and the stability of the information flows in terms of performance.

Lastly, the integration between the management reporting systems is bringing significant and growing benefits in terms of completeness of data, allowing the Bank to reduce processing times and develop reporting, especially of a statistical type, with new areas of analysis for the benefit of the various Relationship Managers of the Bank's commercial and finance areas, as well as the General Management.

At the end of 2019, the 2020-2024 business plan was prepared, incorporating all the requests not only from the Bank's departments but also from the shareholders and Banca d'Italia by completing a document that can guide, accompany and be a constant point of reference for UBAE's recovery of profitability and efficiency. This plan has in fact collected and structured objectives and guidelines for commercial and organisational development, including risk management and governance. This document will be updated on a quarterly basis as early as 2020.

Management control is collaborating with the entire structure to define an increasingly effective and transparent methodology for monitoring, controlling and supporting the management and the Board of Directors.

6. LOGISTICS

The Bank continued to carry out improvements on the Rome and Milan offices in 2019, for optimal usability of the premises in addition to normal maintenance activities. Significant works were carried out for reasons of regulatory and technical efficiency.

In addition to routine maintenance of the buildings in Rome, Morena (archive) and Milan (branch), activities focused on modernising the technical equipment while paying particular attention to increased safety, to energy saving and the environment, along with special bins for separate waste collection.

In particular, old equipment was upgraded with new technology aimed at energy saving, and safety and efficiency were improved for the lifts. At the Milan branch, modernisation works were also carried out on the premises where the server farm is located while replacing some of the technological equipment.

RECLASSIFIED BALANCE SHEET

EUR/000

	BALANCE AS AT :		CHANGE	
	31.12.2019	31.12.2018	AMMOUNT	%
ASSETS				
CASH AND CASH EQUIVALENTS	299,355	589,311	(289,956)	(49.20)
LOANS AND ADVANCES				
- TO CUSTOMERS	328,064	266,063	62,001	23.30
- TO BANKS	742,057	984,263	(242,206)	(24.61
FINANCIAL ASSETS HELD FOR	10,268	15,177	(4,909)	(32.34)
FIXED ASSETS				
- FINANCIAL [1]	674,192	605,766	68,426	11.30
- TANGIBLE	22,770	22,797	(27)	(0.12)
- INTANGIBLE	127	357	(11,894)	(64.43)
OTHER ASSETS [2]	30,405	42,299	11,894	(28.12)
TOTALE DELL'ATTIVO	**2,107,238**	**2,536,033**	**(418,795)**	**(16.58)**
LIABILITIES				
ACCOUNTS PAYABLE				
-TO CUSTOMERS	222,382	105,405	116,977	110.98
-TO BANKS	1,612,793	2,249,914	(637,121)	(28.32)
FINANCIAL LIABILITIES HELD FOR	2,435	3,601	(1,166)	(32.38)
EARMARKED PROVISIONS [3]	7,503	7,709	(206)	(2.67)
OTHER LIABILITIES [4]	19,338	16,388	2,950	18.00
SHAREHOLDERS' EQUITY				
-CAPITAL AND RESERVES	268,931	194,473	74,458	38.29
-NET PROFIT (LOSS) FOR THE YEAR	(26,144)	(51,457)	25,313	(49.19)
TOTAL LIABILITIES	**2,107,238**	**2,526,033**	**(418,795**	**(16.58)**

Inclusive:

(1) of financial assets HTC and HTC&s

(2) of tax assets and other assets

(3) of staff severance fund and provisions for risks and charges

(4) of tax liabilities and other liabilities

RECLASSIFIED INCOME STATEMENT

EUR/000

	BALANCE TO:		CHANGE	
	31.12.2019	31.12.2018	AMMOUNT	%
NET INTEREST INCOME	14,704	13,593	1,111	8.17
NET NON-INTEREST INCOME [1]	11,427	18,437	(7,010)	(38.02)
GROSS OPERATING INCOME	**26,131**	**32,030**	**(5,899)**	**(18.42)**
PERSONNEL EXPENSES	(19,247)	(20,437)	1,190	(5.82)
ADMINISTRATION EXPENSES AND OTHER OPERATING EXPENSES/INCOME	(10,679)	(10,275)	(404)	3.93
GROSS OPERATING RESULT	**(3,795)**	**1,318**	**(5,113)**	**(387.94)**
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS	(1,373)	(1,621)	248	(15.30)
PROVISIONING, WRITE-DOWNS AND WRITE-UPS [2]	(20,976)	(51,154)	30,178	n.a.
PRE-TAX PROFIT (LOSS) FROM CONTINUING OPERATIONS	**(26,144)**	**(51,457)**	**25,313**	**(49.19)**
INCOME TAX FOR THE YEAR				
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**(26,144)**	**(51,457)**	**25,313**	**(49.19)**
NET PROFIT (LOSS) FOR THE YEAR	**(26,144)**	**(51,457)**	**25,313**	**(49.19)**

Inclusive:

(1) of net commissions, dividends and net trading income and profits (losses) on disposal or repurchase of financial assets (HTC&S)

(2) of net impairment adjustments and net provisioning for risk and charges

COMMENTS

COMMENTS ON BALANCE SHEET ITEMS[1]

Credits

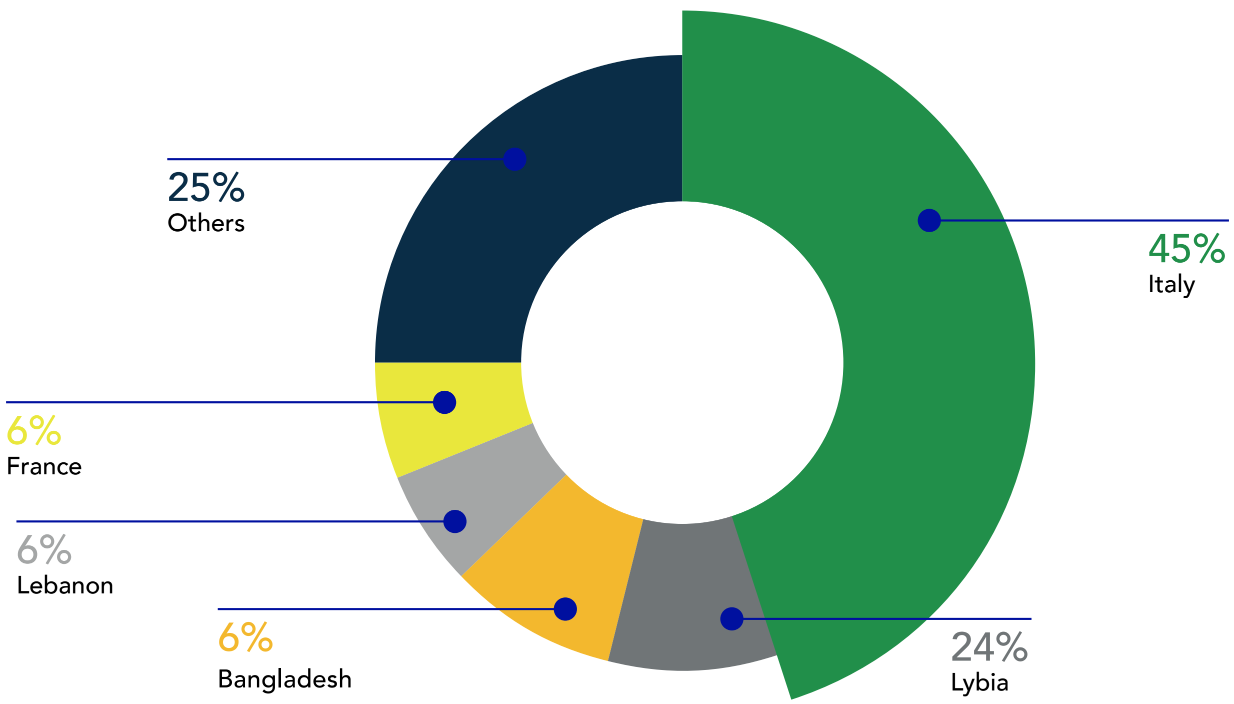
The credit process is based on full involvement at the various levels of the Bank's structure, to comply with the need for prompt fulfilment of requests from the counterparties involved.

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	AMOUNT	%
LOANS AND ADVANCES TO CUSTOMERS:				
IN EUROS	222,166	172,796	49,370	28.57
IN OTHER CURRENCIES	105,898	93,267	12,630	13.54
LOANS AND ADVANCES TO BANKS:				
IN EUROS	233,161	269,604	(36,444)	(13.52)
IN OTHER CURRENCIES	508,896	714,658	(258,762)	(28.79)
TOTALE	1,070,121	1,250,326	(180,205)	(14.41)

Shown below is the geographical representation of the loans granted by the Bank at 31 December 2019:

Percentage distribution Loans by Country in 2019



1 The tables reflect the reclassification of "htc" securities in the item "securities and derivatives assets"

Loans to customers

At 31 December 2019, these receivables amounted to approximately 328 million euros, an increase of over 23% on the 2018 figure mainly due to the increase in financing transactions for corporate entities.
During the 2019 financial year, the Bank resumed providing support for its corporate customers with the aim of supporting their commercial activities aimed at UBAE's countries of interest.
The Bank continued with its credit risk diversification policy in order to comply with the concentration limits set by Banca d'Italia regulations on large exposures.
The prevalent type of operations carried out by UBAE was financial support to Italian operators for their trade finance activities conducted with countries that have always been considered core business, also through participation in pools organized by leading credit institutions.
The factoring activity in its various forms carried out at the Milan branch confirmed the economic value, with benefits which at the end of 2019 reached satisfactory values, also showing signs of improvement margins for 2020 due to staffing reinforcement in the near future.
For the evaluation criteria used, see the explanatory notes to the financial statements, Part A - Accounting Policies.

Loans to banks

The size and composition of the loan portfolio reflect the financial needs of specific banking segments: those in the countries of UBAE's core business, and those for the activity of the Finance Area. In both cases, lending to banks is based on the principles of sound and prudent management, of proper risk remuneration, and an appropriate and efficient operating system in order to enable the Bank to establish a relationship with the counterparties based on trust, mutual respect, and transparency regarding remuneration.

Receivables from banks at the end of the year were down by 24% partly due to a different distribution of funds between Euros and foreign currencies. However, the results for the whole year 2019 achieved reasonable average amounts.

Volumes were influenced by the interest rate policies pursued by the ECB, which affected the investment choices in this sector both from the mandatory obligation to comply with the daily liquidity index (LCR) established by the regulators that continued to strongly constrain the commercial and financial choices for the use of the funds, given the short duration of the deposits received and the need to ensure an adequate balance between income and expenses.

Furthermore, it should be borne in mind that the volume of loans granted to our main banking counterparties is always conditioned not only by the numerous regulations on risk containment, but also by those governing "Shadow Banking Entities" (SBE) which significantly affect the Bank's business, given the geographical location of the counterparties with which the Bank interacts.

The credit risk process is pursued in all the management phases that distinguish the fiduciary relationship and in particular through effective surveillance and monitoring actions aimed at making prompt assessments when anomalies arise. Activities regarding "OIL" flows have resumed, deriving from exports of crude oil from the producing countries (primarily Libya) to Italy. Loans to banks – in the form of financing – were fairly stable during 2019, reaching average levels resulting in fairly satisfactory economic returns, also in considerationof the risk to which the Bank is exposed in this sector.

Activities in securities and derivatives

The consistency of financial assets including securities, derivatives and minority stakes in equity investments amounted to 695 million euros and represents an increase of 75 million euros compared to the previous year. The objectives and strategies underlying the trading activity, aimed at managing the securities portfolio, are oriented towards maximizing the income of the holding.
The proprietary securities portfolio, with investments in securities issued by the Italian Republic (Government Bonds) or securities eligible for the Bank's needs, supports the management of the Bank's liquidity commitments. The increase in the securities portfolio has simplified Treasury commitments which are increasingly characterized by the concentration of operations in specific periods.

The fair value trend of the securities portfolio was characterized by significant volatility, which began in 2018 and continued for the first 8 months of 2019 following political uncertainties in Italy after the national election results.

At 31 December 2019, the nominal value of the securities in the HTC&S portfolio amounted to 8 million euros (compared to 357 million euros at 31 December 2018), the securities portfolio at amortized cost (HTC) was equal to 677 million euros (previously 253 million euros) composed almost entirely of government bonds issued by UBAE countries of interest.

The different breakdown – with reference to the volumes of the securities in the HTC&S and HTC portfolios – is the logical consequence of the change in the Bank's business model which took place at the end of 2018, the effects of which occurred on 1 January 2019.

During the year, taking into account the low spread levels that affected the money market, in particular the interbank market, Banca UBAE maintained a relatively high average of volumes in order to continue pursuing the low-risk bond investment policy, issued by governmental bodies and central administrations of Asian and North African countries.

The Bank's policy in this sector has also been to preserve, at optimal levels, the share of securities in the Held to Collect (HTC) portfolio and intended for the stock of High Quality Liquid Assets (HQLA) in order to comply with the hedging indicator (Liquidity Coverage Ratio) required by current legislation. As for the interest rate risk and the price risk, the strategy pursued, in the context of the Bank's general policy, was oriented towards prudent management of assets.

Note also that, following the Board's approval of the new Business Model on 10 December 2018, ubae focused its investment activities in 2019 on the securities portfolio at amortised cost ("HTC" or Held to Collect), therefore making residual the portfolios HTCS (Held To Collect and Sell, formerly AFS) and the trading portfolio Trading/FVTPL (Fair Value True Profit or Loss, formerly HFT).

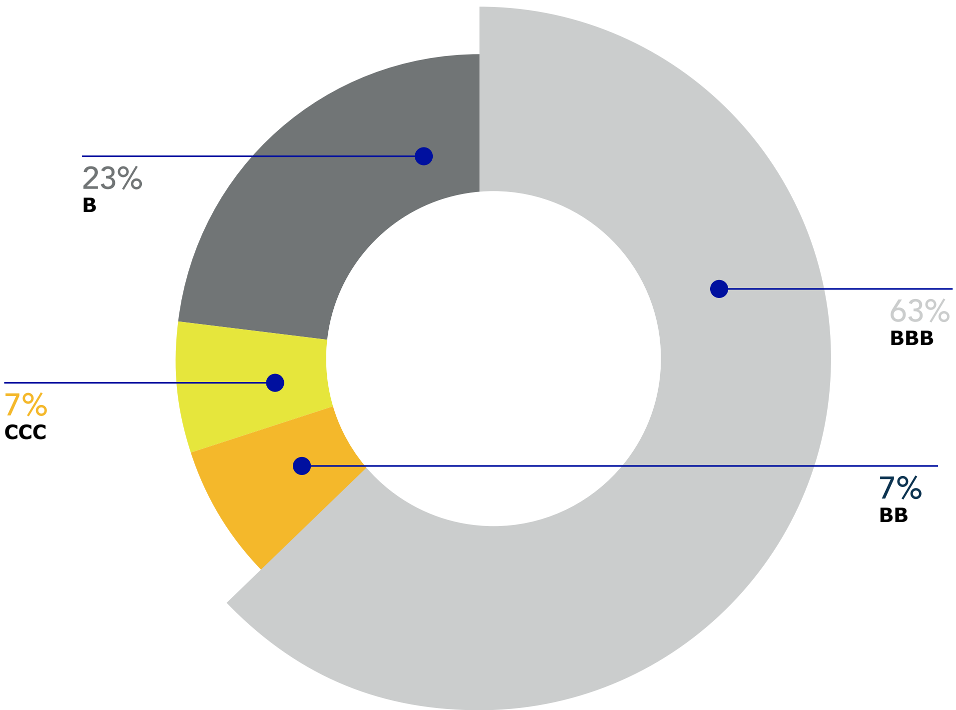
Starting from 1 January 2019, this new strategic approach, adopted in compliance with the IFRS9 accounting standard, determines the reclassification of government securities from the HTCS portfolio to the HTC portfolio as if they had always been valued at amortised cost.

Overall, in the financial assets segment, the Bank reported the following results

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	ESP. NET	%
FINANCIAL ASSETS				
ASSETS HELD FOR TRADING	10,268	15,177	(4,909)	(32.34)
LIABILITIES HELD FOR TRADING	(2,435)	(3,601)	1,166	(32.38)
ASSETS HTC&S	8,266	351,946	(343,680)	(97.65)
ASSETS HTC	665,926	253,820	412,106	162.36
TOTAL	682,025	617,342	64,683	10.48

Below is a graphic representation of the assets to be held to maturity and HTC&S divided by rating and date.



For the criteria followed in the valuation of the securities, as wel l as for those adopted for the purpose of distinguishing between trading and investment securities, please refer to what is described in the explanatory notes to the accounts, Part A - Accounting Policies.

Impaired financial assets (cash, signature and securities)

EUR/000

	31.12.2019			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	149,149	(96,098)	53,051	64.4%
BAD DEBTS	48,967	(44,484)	4,482	90.8%
PROBABLE IMPAIRMENTS	100,182	(51,614)	48,568	51.5%
NOT IMPAIRED ASSETS	2,699,940	(27,869)	2,386,495	1.2%
CASH AND NOT CASH ASSETS	2,563,513	(123,967)	2,439,546	4.8%

EUR/000

	31.12.2018			
	GROSS EXPOSURE	WRITE-DOWNS	NET EXPOSURE	COVERAGE %
IMPAIRED ASSETS	132,343	(82,153)	50,190	62.1%
BAD DEBTS	26,370	(25,371)	1,000	96.2%
PROBABLE IMPAIRMENTS	105,973	(56,782)	49,190	53.6%
NOT IMPAIRED ASSETS	2,699,940	(18,547)	2,681,393	0.7%
CASH AND NOT CASH ASSETS	2,832,283	(100,700)	2,731,583	3.6%

Managing impaired assets involves taking steps consistent with the seriousness of the situation in order to bring them back to normal or – should that be impossible – to implement adequate recovery or selling processes if deemed efficient.

The total amount of impaired loans gross of value adjustments on loans amounted to 149 million euros, an increase of 17 million euros compared to the 63.5 million euros of the previous year. The increase is due to the classification, in the "probable default" category, of some positions relating to corporate customers operating in the construction sector.

During the year, negative value adjustments were made for a total of 14 million euros relating to expected losses on loans to customers and securities classified as impaired, the recovery of previous write-downs, and the elimination of bad positions for which it is believed only marginal recoveries are possible.

As part of the prudential provisions, referred to above, which affected our portfolio (i.e. performing loans, both to customers and to cash and signature banks as well as performing securities classified in the HTC and HTC&S portfolio) made in compliance with the provisions of the IFRS9 international accounting standard, here was a decrease in value of approximately Euro 6 million.

The ratio between loans (cash and signature) and gross bad debts was 1.91% (previously 0.93%) and 0.18% (formerly 0.04%) with respect to net bad debts.

The ratio between gross impaired loans and gross loans to customers went from 4.67% to 5.82% while the overall coverage ratio of impaired loans went from 62.08% to 64.43%.

A summary of the Bank's impaired loan indices, both in cash and by signature, is shown in the table below:

HEDGING OF CREDITS BY STATUS	31.12.2019	31.12.2018
BAD DEBTS	90.85%	96.21%
PROBABLE IMPAIRMENTS	51.52%	53.58%
OVERALL IMPAIRMENTS	64.43%	62.08%
"IN BONIS"	1.15%	0.69%
OVERALL OF CREDITS	4.84%	3.56%

PERCENTAGE COMPOSITION OF CREDITS TOWARDS CUSTOMERS (CASH AND SIGNATURE)	31.12.2019	31.12.2018
CREDITS "IN BONIS"	97.83%	98.16%
IMPAIRED CREDITS:	2.17%	1.84%
BAD DEBTS	0.18%	0.04%
PROBABLE IMPAIRMENTS	1.99%	1.80%

RISK RATIOS	31.12.2019	31.12.2018
GROSS IMPAIRED CREDITS/GROSS CREDITS	5.82%	4.67%
GROSS BAD DEBTS/GROSS CREDITS	1.91%	0.93%
NET IMPAIRED CREDITS/NET CREDITS	2.17%	1.84%
NET BAD DEBTS/NET CREDITS	0.18%	0.04%

TAXES RATIO	31.12.2019	31.12.2018
IMPAIRED CREDITS/ SHAREHOLDERS' EQUITY	21.85%	37.95%

Debts

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	AMOUNT	%
PAYABLE TO CUSTOMERS				
IN EUROS	71,346	57,844	13,502	23.34
IN OTHER CURRENCIES	151,035	47,561	103,475	217.56
PAYABLE TO BANKS				
IN EUROS	972,857	1,227,688	(254,831)	(20.76)
IN OTHER CURRENCIES	639,936	1,022,226	(382,290)	(37.40)
TOTAL	1,835,175	2,355,319	(520,144)	(22.08)

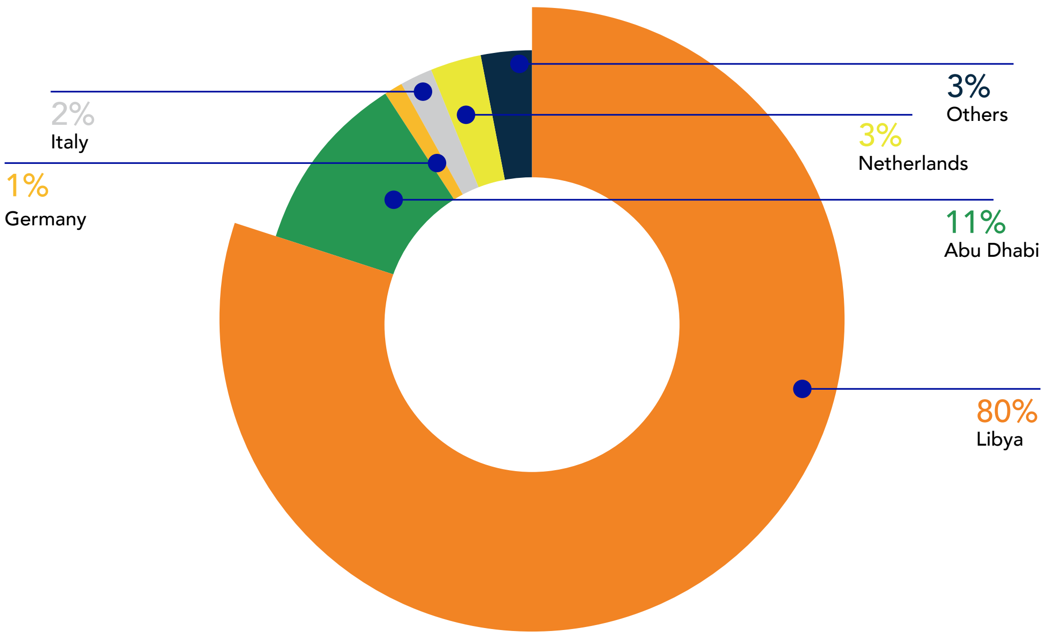
Amounts due to banks and customers are shown in the financial statements, as per current legislation, at the amortised cost.

In the table above, the data and changes in deposits in euros and foreign currencies by customers and correspondent banks are highlighted.

As indicated in the management report, deposits by institutional counterparties in 2019 had a constant average trend, reaching volumes – even if lower than 31 December 2018 – at the end of the year, which were fairly reasonable.

Conversely, the volume of deposits from corporate customers – especially counterparties in countries of interest to the Bank – were affected by an increase, achieving reasonable values.

Funding by contry 2018



Assets

Equity constitutes the main reference point in the assessments by the Oversight Body on the stability of the Bank and its system. The main prudential control tools are based on equity, such as the requirements for risk and the rules on their concentration.

The following table shows the changes that occurred in the Bank's assets:

EUR/000

	CAPITAL	SHARE PREMIUM	RESERVES	NET PROFIT	TOTAL
31.12.2018	159,861	16,702	17,910	(51,457)	**143,016**
CHANGE IN OPENING BALANCE			(803)		**(803)**
APPROPRIATION OF PROFIT: RESERVES		(15,832)	(35,625)	(51,457)	
DIVIDENDS					
OTHER RESERVES			101,325		**101,325**
VALUATION RESERVE			25,393		**25,393**
NET PROFIT				(26,144)	
31.12.2019	**159.861**	**870**	**108,200**	**(26,144)**	**242,787**

The net equity of Banca UBAE, including valuation reserves and the result for the period as at 31 December 2019, amounts to approximately 242.7 million euros and shows an increase compared to that of the previous year (143 million euros).

The shareholders' ordinary meeting, when approving the 2018 financial statements, resolved to cover 2018 losses by using the Bank's available reserves.
The assets at the end of the year benefitted from the capital payment made by the majority shareholder Libyan Foreign Bank of approximately 101 million euros in capital account for the future increase in the Bank's share capital; planned increase by the first quarter of 2020.

At the end of the year, Banca UBAE showed a CET1/Tier1 capital ratio of 17.41% compared to 10.37% on 31 December 2018. The total capital ratio rose to 24.43% compared to 17.34% for the year 2018.
In addition, following the prudential review and evaluation process carried out by Banca d'Italia (SREP), the Oversight Authorities have determined, in 2018, the new additional capital requirements that the Bank will have to hold in addition to the minimum ones required by current legislation; to date, the Bank appears to be in line with the new requirements established by the Oversight Body (see table).(cfr. tabella).

	31.12.2019	LIMIT EXPECTED BY BANCA D'ITALIA
CET 1	17.414%	8.824%
CLASS 1	17.414%	10.934%
TOTAL CAPITAL	24.428%	13.744%

Shares

The share capital of Banca UBAE at 31 December 2019 amounted to 159,860,800 euros divided into 1,453,280 ordinary shares with a value of 110 euros each.

Subordinated loan

In order to ensure the strengthening of the Bank's assets and an adequate and stable level of Own Funds, the majority shareholder (Libyan Foreign Bank) resolved, in August 2018, to extend the subordinated loan for an overall value of 100,000,000 euros until December 2024 (previously 2023) establishing, at the same time, the exclusion of any early repayment clause of the loan which will be repaid exclusively at the end of the period (2024). The principle remains that, for the sole purpose of calculating Own Funds, a value reduced by 20% every year will continue to apply in the last five years (from 2020).
Once the capital increase process is finalised, by the first quarter of 2020, the loan will be repaid to the Libyan shareholder (following authorisation received from Banca d'Italia).

COMMENTS ON BALANCE SHEET DATA

Interest margin

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	AMOUNT	%
10. INTEREST INCOME AND RELATED REVENUE	43,268	51,396	(8,128)	(15.81)
20. INTEREST CHARGES	(28,564)	(37,803)	9,239	(24.44)
NET INTEREST INCOME	14,704	13,593	1,111	8.17

Net interest margin increased by 8.17% to 14.7 million euros (13.59 million euros in the previous year).

Some negative factors continued to affect the result for the year, which caused a decrease in interest income. In particular, the temporal distribution of the collection of deposits in the money market had an impact which was highly unbalanced as regards the "tenor", preventing medium/long-term investments with consequent reduced economic returns also due to the obligation of complying with the daily liquidity index (LCR).

This imbalance of "tenor" has considerably constrained the commercial and financial choices for the use of the available funds which inevitably impacted revenues; furthermore, this market (in which the UBAE has always been active) continued to offer profit margins not in line with expectations. In fact, for some time now, due to the situation in the money markets, the treasury is no longer considered a "profit centre" but as a "service centre" for banks.

An important objective in 2019 involved the optimisation of the high liquidity buffer necessary to stabilize the binding indicators set by Banca d'Italia, the Liquidity coverage ratio (LCR) and the Net stable funding ratio (NSFR).

The trend in negative rates paid to Banca d'Italia for the continuous use of O/N deposits in order to maintain the aforementioned LCR index also weighed heavily on the 2019 figure.

BROKERAGE AND OTHER INCOMES

The revenues from brokerage and financial intermediation are shown below:

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	AMOUNT	%
30. DIVIDENDS AND OTHER PROCEEDS				
40. COMMISSIONS RECEIVED	22,581	21,442	1,139	5.31
50. COMMISSIONS PAID	(8,224)	(4,990)	(2,095)	(12.73)
NET COMMISSIONS PAID	**14,357**	**16,452**	**(2,095)**	**(12.73)**
80. PROFITS (LOSSES) ON TRADING	(2,925)	2,236	(5,161)	(230.81)
100. PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE HTC&S	(5)	(251)	246	(98.01)
NET NON-INTEREST INCOME	**11,427**	**18,437**	**(7,010)**	**(38.02)**

Brokerage and miscellaneous income decreased compared to the previous year; the 2019 balance stood at 11.4 million euros (against 18.4 million euros in 2018).

Net commissions amounted to 14.3 million euros showing a decrease compared to the previous year; this result, despite the fact that some of the Bank's countries of interest are going through economic difficulties, is the direct consequence of implementing the management's strategic lines aimed at identifying new business opportunities in countries with adequate risk profiles, in place of some traditional partners whose political and social conditions no longer allow (or highly limit) the continuation of commercial relations.

The decreased result for the Finance Area in 2019, which stands at negative values, must be understood keeping in mind the economic environment in which the Bank operated. On the one hand, the decision of the Board of Directors to review the future investment plans for the securities portfolio was influenced by the negative figures of the interest-rate derivatives held by the Bank and purchased with counterparties of outstanding creditworthiness; on the other hand, aiming to mitigate the interest rate risk to which the Bank is exposed.

The year-end figure for trading activities stood at around -2.9 million euros compared to +2.2 million euros in 2018.

ADMINISTRATIVE EXPENSES AND OTHER OPERATING INCOME AND CHARGES

EUR/000

	BALANCE AS AT:		VARIATION	
	31.12.2019	31.12.2018	AMOUNT	%
A) PERSONNEL EXPENSES:				
WAGES AND SALARIES	(11,182)	(12,234)	1,051	(8.59)
SOCIAL SECURITY CONTRIBUTIONS	(3,396)	(3,499)	103	(2.93)
STAFF SEVERANCE PAYMENTS	(754)	(784)	31	(3.89)
OTHER EXPENSES	(1,985)	(1,365)	(620)	45.39
TOTAL EMPLOYEE EXPENSES	**(17,317)**	**(17,882)**	**565**	**(3.16)**
ADMINISTRATORS	(1,647)	(2,048)	402	(19.61)
STATUTORY AUDITORS	(102)	(106)	4	(4.21)
NON-STAFF ASSOCIATES	(182)	(400)	218	(54.60)
TOTAL PERSONNEL EXPENSES	**(19,247)**	**(20,437)**	**1,189**	**(5.82)**
B) OTHER ADMINISTRATION EXPENSES	(12,103)	(13,585)	1,482	(10.91)
C) OTHER OPERATING EXPENSES/ INCOME	1,424	3,310	(1,886)	(56.98)
TOTAL	**(29,926)**	**(30,712)**	**785**	**(2.56)**

Administrative expenses and other operating income and charges which amounted to 29.9 million euros at 31 December 2019 are down on the 2018 figure (Euro 30.7 million).

Personnel expenses, amounting to 19.2 million euros, decreased slightly compared to the previous year (-5.82%) partly due to a specific reduction policy implemented by the Bank.

Other administrative expenses came to 12.1 million euros (previously 13.5 million euros). The result includes the mandatory contribution (ordinary and extraordinary) of approximately 1.9 million euros (2.1 million euros in 2018) paid to Banca d’Italia for the Single Resolution Fund and the National Resolution Fund.

At the end of the year, if the above contributions are not taken into account, the figure for administrative expenses is lower than that of 2018, reflecting the particular attention paid by the Bank to restraining these costs, without compromising the efficiency of the organisational and operational structure.

The result of other operating income was satisfactory, amounting to 1.4 million euros, although decreasing compared to the figure for 2018 (3.3 million euros).

FORMATION OF OPERATING PROFIT

EUR/000

	BALANCE AS AT:				VARIATION	
	31.12.2019		31.12.2018		AMOUNT	%
GROSS OPERATING PROFIT		(3,795)		1,318	(5,113)	(387.94)
NET ADJUSTMENTS TO TANGIBLE AND INTANGIBLE FIXED ASSETS		(1,373)		(1,621)	248	(15.30)
NET IMPAIRMENT ADJUSTMENTS:						
TO LOANS	(21,942)		(46,642)			
TO FINANCIAL ASSETS AVAILABLE FOR SALE	943		(2,167)			
TO FINANCIAL ASSETS HELD TO MATURITY						
TO OTHER FINANCIAL OPERATIONS	865		(2,247)			
NET PROVISIONING FOR RISKS AND CHARGES	(842)		(98)			
TOTAL		(20,976)		(51,154)	30,178	
PROFIT (LOSS) BEFORE TAX		(26,144)		(51,457)	25,313	(49.19)
INCOME TAX FOR THE YEAR						
NET PROFIT (LOSS)		(26,144)		(51,457)	25,313	(49.19)

Comparing the financial years at their respective closure dates, shows a result of Euro -26 million at 31.12.2019 and Euro -51.4 million at 31.12.2018. The negative results are almost exclusively due to a policy of extraordinary provisions for nonperforming loans.

At 31 December 2019, during the prudential assessment of the exposures and following the results of the careful risk assessments, the decision-making bodies decided to further adjust the risk provisions previously allocated, proceeding with an increase. The provisions involved approximately **21 million** euros at 31 December 2019.

As regards the Bank's VAT position for the financial years 2005 and up to 2008, subject to litigation by the Inland Revenue, the decision was not to make provisions – in line with what was done in previous years – since the conduct of the Banca in this matter, as also supported by tax advisors, was deemed to comply with current regulations.

For further information on the above data, refer to the explanatory notes Part c) Information on the Income Statement.

SIGNIFICANT EVENTS AFTER THE END OF THE YEAR

Share capital

The Banca UBAE Shareholders' Extraordinary Meeting, held on 23 December 2019, resolved to increase the share capital by payment from Euro 159,860,800 to a maximum of Euro 309,860,980 therefore for an amount of Euro 150,000,180.

On 24 December 2019, the Libyan Foreign Bank, as the majority shareholder, paid the "capital account" for the future increase of the same amount of Euro 101 million, as part of the overall increase project.

This payment, for the purposes of its computability among Own Funds, was carried out in compliance with the instructions set out in the Supervisory Circular 285/2013(Part 2, Chapter 1 "Own funds" - Guidelines).

The process of increasing the share capital will end on 31 March 2020 and, to date, only the majority shareholder Libyan Foreign Bank - Tripoli (LFB) subscribed for its share.

In summary, at the end of the process described above, the share capital amounts to Euro 261,185,870; the shareholding of the LFB goes from 67.55% on 31 December 2019 to 80.15% on 31 March 2020.

On the same date - 31 March 2020 - at the conclusion of the above process, as required by the 2020-2024 business plan and following the authorization received from Banca d'Italia, the subordinated loan was repaid to the shareholder Libyan Foreign Bank signed in 2008 for an amount of Euro 100 million.

Coronavirus

In the first quarter of 2020, the national and international economy was devastated by the epidemiological emergency caused by COVID-19.

From the first considerations made by important economic operators (Fitch), it is estimated that it will have a decidedly negative impact on the Italian, Euro and international economy so as to bring the markets into recession in 2020.

However, these are estimates; to date with the epidemic in progress (pandemic declared by the W.H.O. in March 2020) there is particular caution in limiting the impacts both at macro-economic and micro-economic level; at present, it is still too early to establish the real economic consequences.
As for the banking sector, the effects of corona-virus on Italian and European banks are under observation by analysts.

Logically, lenders will not be exempt from this new crisis that is sweeping international markets; the impact of corona-virus on banks has begun to be closely monitored.

According to some financial experts, the impact of corona-virus on banks will particularly affect cumulative profits, which from 2020 to 2023 could collapse also drop by around 30%.

Smaller institutions will suffer even more markedly. In their case, the decline in earnings could be even higher. If the outbreak lasts longer than expected, it will lead to several consequences, including:

- increased credit risk;
- weakness in revenues;
- drop in volumes;
- lower margins on rates;
- decrease in commissions;
- cost stability.

However, as the situation is represented, numerous observers have pointed out, it still appears to be rapidly evolving, so that the impact of the corona-virus on Italian and European banks will continue to be monitored over time.

Lebanon

On March 7, 2020, the Prime Minister of Lebanon announced the government's decision to withhold all payments related to the US $ 1.2 billion bond issue due on March 9, 2020 in order to safeguard foreign exchange reserves.

Banca UBAE has a position in these government bonds allocated in the HTCPortfolio.

The failure to repay the expiring securities, which can be configured as an extraordinary event that occurred after the end of the financial year, led to not negligible negative economic effects in terms of higher provisions recognized in the 2019 financial statements, also taking into account the worsening of the Lebanese credit rating already recorded during the exercise.

Consequently, the Bank allocated these securities within Stage 2. In light of the international accounting standard IFRS9, the method for calculating write-downs is lifetime in this stage. The ECL lifetime was therefore calculated by assuming a three-year period and applying this approach to all the government bonds held at the date.
To date, information is awaited regarding the official restructuring of the Lebanese debt; in this case the Bank will adjust the write-downs in accordance with the agreements that will be made.

As regards the exposure of the Lebanese banks entrusted by us for commercial operations, to date there have been no delays and no hedging of funds.

- **Banca UBAE does not conduct R&D activities.**
- **Banca UBAE's portfolio does not hold its own shares.**
- **Information regarding rapports with related parties are contained in section "H" of the Supplementary Note.**

PREDICTABLE EVOLUTION OF MANAGING THE CRISIS SITUATION

The uncertainty about the global economic outlook increased significantly in the first few months of 2020, mainly due to the repercussions that the spread of the Covid-19pandemic will have.

To date there are many elements that are difficult to quantify, including the perspectives concerning in particular the effects of Covid-19. If this health crisis is resolved relatively quickly, the fall in activity could be more contained. Furthermore, the trend in early months of the crude oil price which reached the value of approximately USD 35 in March 2020 should not be underestimated, a value that has not been seen for many years; in fact, the competition among the major oil exporters has been added to the corona-virus effect, which has brought large fuel consumers to their knees, that is the airlines whose planes have remained on the ground due to the closure of airports. Oil values that are too low could adversely affect the economies of crude-exporting countries that need a high price per barrel to make ends meet.
Otherwise, the economic crisis could spread to these countries too, limiting their budgets for investments and imports.

In this context, Italy is in a particularly fragile position: what has been described above worsens an economic situation that is certainly not brilliant and conditioned also by a very complex if not critical public finance situation.

As regards Banca UBAE, it should be taken into consideration that the new business plan for the period 2020-2024 - approved in November 2019 by the Board of Directors - provided, inter alia, for an adequate increase in the Bank's tier one capital so as to have sufficient capital for its operational needs, to allow it to be able to operate with confidence in the reference markets, guaranteeing an economic recovery in line with expectations and a return to profit in the shortest possible time; the funds destined for this increase were received at the end of 2019 and are allocated to the shareholders' equity reserves.

The result expected in 2019 was unsatisfactory due to the adjustments on loans and on securities far higher than expected which led to significant provisions. Also having funds available for the increase in assets only at the end of the 2019 financial year caused failure to achieve the objectives.

The 2020-2024 business plan was based on the attractiveness of Banca UBAE especially in the countries of our interest and in new foreign markets in order to achieve adequate revenues and profits in the coming years. Certainly the serious crisis due in particular to the epidemiological emergency from COVID-19, the economic uncertainties, the default of a country of our interest such as Lebanon, mean that the Bank will shortly review the industrial plan to adapt the economic and capital targets to the new events that will certainly have an impact on new future investments.

However, we are confident that the Bank has the economic, equity and organizational resources to be able to return to the planned income levels in the shortest possible time; to achieve this objective, the support that Libyan Foreign Bank has always given to our Institute is fundamental and continue to give in the future.

PROPOSAL TO THE SHAREHOLDERS

Approval of the financial statements for the year ended 31 December 2019 and covering the loss for the year

To all Shareholders,

- having examined the Bank's draft financial statements closed on 31 December 2019;
- having regard to the Board's Report on Operations;
- taking into account the capital resources available at 31 December 2019;
- acknowledging the Reports by the Board of Statutory Auditors and the BDO Independent Auditors;

We propose to you

- to approve Banca UBAE's financial statements as of 31 December 2019, accompanied by the Board's Report on Operations, which shows a loss for the year of **Euro 26,144,425**;
- approving the proposal to postpone settlement and to cover it with profits from future years.

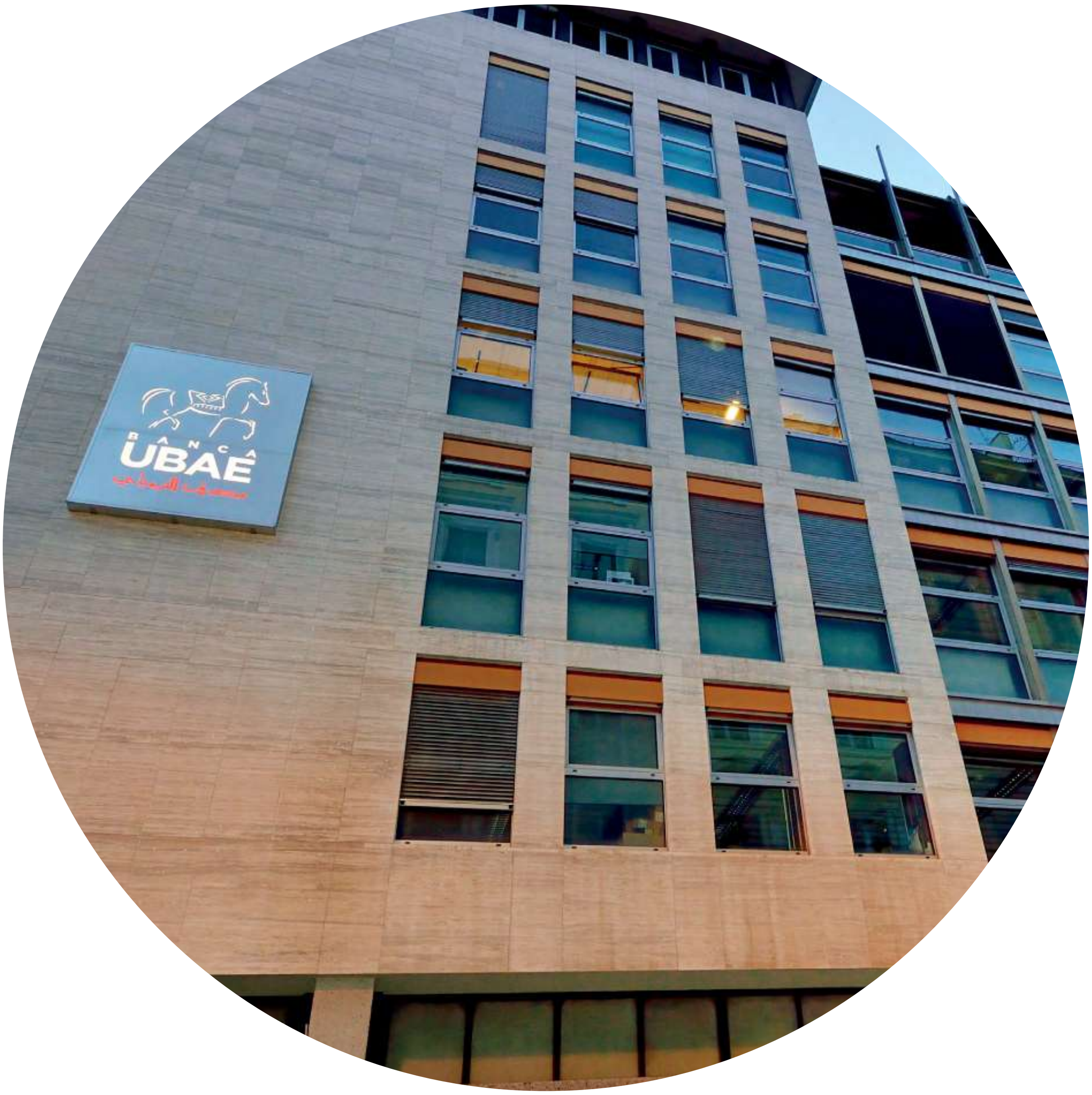
If the following scheme is approved, Shareholders' Equity will amount to EUR 242,787,066 and will be composed as follows:

	EURO
SHARE CAPITAL	159,860,800
LEGAL RESERVE	13,494,100
OTHER RESERVES*	101,325,070
SHARE PREMIUM ACCOUNT	870,225
IFRS9 FTA RESERVES FROM 2018 LOSS	(7,757,798)
IAS FTA RESERVE FROM 2005 IAS PROFIT	305,240
REVALUTION RESERVES	833,854
NET LOSS	(26,144,425)
	242,787,066

(*) portion of the LFB for the capital increase

Roma, 25 March 2020 **THE CHAIRMAN**

BANCA UBAE: AN INTERNATIONAL BANK FOR THE GLOBAL MARKET



Rome Headquarters
Via Quintino Sella, 2

FINANCIAL STATEMENTS 2019

(amounts in Euros)

BALANCE SHEET: ASSETS

	ITEMS	31.12.2019	31.12.2018
10	CASH AND CASH EQUIVALENTS	299,354,638	589,310,877
20	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	10,268,140	15,176,777
	A) FINANCIAL ASSETS HELD FOR TRADING	10,268,140	15,176,777
30	FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	8,265,562	351,945,844
40	FINANCIAL ASSETS MEASURED AT AMORTISED COST	1,736,047,002	1,504,146,171
	A) DUE FROM BANKS	779,991,425	1,015,955,815
	B) LOANS TO CUSTOMERS	956,055,577	488,190,356
80	PROPERTY AND EQUIPMENT	22,769,902	22,797,261
90	INTANGIBLE ASSETS	126,843	356,625
100	TAX ASSETS	19,635,221	31,773,490
	A) CURRENT	11,616,090	10,911,303
	B)DEFERRED	8,019,131	20,862,187
120	OTHER ASSETS	10,770,754	10,525,990
TOTAL ASSETS		2,107,238,062	2,526,033,035

BALANCE SHEET: LIABILITIES AND SHAREHOLDERS' EQUITY

	ITEMS	31.12.2019	31.12.2018
10	FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	1,835,174,677	2,355,318,835
	A)DUE TO BANKS	1,612,793,316	2,249,914,394
	B)DUE TO CUSTOMERS	222,381,361	105,404,441
20	FINANCIAL LIABILITIES HELD FOR TRADING	2,435,093	3,601,070
60	TAX LIABILITIES	1,818,282	1,055,245
	A) CURRENT	1,296,898	1,055,245
	B) DEFERRED	521,384	
80	OTHER LIABILITIES	17,520,109	15,333,478
90	EMPLOYEE TERMINATION INDEMNITIES	1,086,941	1,103,941
100	ALLOWANCES FOR RISKS AND CHARGES	6,415,894	6,604,181
	A) COMMITMENTS AND GUARANTEES GIVEN	5,107,502	5,972,481
	C) OTHER ALLOWANCES FOR RISKS AND CHARGES	1,308,392	631,700
110	VALUATION RESERVES	833,854	(24,559,039)
120	RESERVES	107,366,611	42,469,619
150	SHARE PREMIUM RESERVE	870,226	16,702,216
160	SHARE CAPITAL	159,860,800	159,860,800
180	NET INCOME (LOSS) (+/-)	(26,144,425)	(51,457,309)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		2,107,238,062	2,526,033,035

INCOME STATEMENT

	ITEMS	31.12.2019	31.12.2018
10	INTEREST AND SIMILAR INCOME	43,268,060	51,395,490
	OF WHICH: INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD	42,844,739	49,322,194
20	INTEREST AND SIMILAR EXPENSE	(28,563,701)	(37,802,505)
30	INTEREST MARGIN	14,704,359	13,592,986
40	FEE AND COMMISSION INCOME	22,580,924	21,442,121
50	FEE AND COMMISSION EXPENSE	(8,224,158)	(4,990,123)
60	NET FEE AND COMMISSION INCOME	14,356,766	16,451,998
70	DIVIDEND AND SIMILAR INCOME	1,199	
80	PROFITS (LOSSES) ON TRADING	(2,925,172)	2,235,924
100	PROFITS (LOSSES) ON DISPOSAL OR REPURCHASE OF:	(5,851)	(251,532)
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH	(5,851)	(251,532)
120	NET INTEREST AND OTHER BANKING INCOME	26,131,301	32,029,375
130	NET LOSSES/RECOVERIES FOR CREDIT RISKS ASSOCIATED WITH:	(20,999,453)	(48,808,005)
	A) FINANCIAL ASSETS MEASURED AT AMORTISED COST	(21,941,992)	(46,640,598)
	B) FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH	942,539	(2,167,407)
150	NET INCOME FROM BANKING ACTIVITIES	5,131,848	(16,778,630)
160	ADMINISTRATIVE EXPENSES:	(31,350,292)	(34,021,612)
	A)PERSONNEL EXPENSES	(19,247,421)	(20,436,698)
	B)OTHER ADMINISTRATIVE EXPENSES	(12,102,871)	(13,584,914)
170	NET PROVISIONS FOR RISKS AND CHARGES	23,132	(2,344,987)
	A)COMMITMENTS AND GUARANTEES GIVEN	864,979	(2,246,972)
	B)OTHER NET PROVISIONS	(841,847)	(98,016)
180	NET ADJUSTMENTS TO / RECOVERIES ON PROPERTY AND EQUIPMENT	(1,056,883)	(840,285)
190	NET ADJUSTMENTS TO / RECOVERIES ON INTANGIBLE ASSETS	(316,247)	(781,442)
200	OTHER OPERATING EXPENSES (INCOME)	1,424,017	3,309,646
210	OPERATING EXPENSES	(31,276,273)	(34,678,679)
260	INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	(26,144,425)	(51,457,309)
270	TAXES ON INCOME FROM CONTINUING OPERATIONS		
280	INCOME (LOSS) AFTER TAX FROM CONTINUING OPERATIONS	(26,144,425)	(51,457,309)
300	NET INCOME (LOSS)	(26,144,425)	(51,457,309)

STATEMENT OF COMPREHENSIVE INCOME

	ITEMS	31.12.2019	31.12.2018
10	NET INCOME (LOSS)	(26,144,425)	(51,457,309)
	OTHER COMPREHENSIVE INCOME (NET OF TAX) THATAY NOT BE RECLASSIFIED TO THE INCOME STATEMENT		
70	DEFINED BENEFIT PLANS	(30,552)	40,813
	OTHER COMPREHENSIVE INCOME (NET OF TAX) THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT		
140	FINANCIAL ASSETS (OTHER THAN EQUITIES) MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	25,423,446	(25,155,612)
170	TOTAL OTHER COMPREHENSIVE INCOME (NET OF TAX)	25,392,893	(25,114,799)
180	TOTAL COMPREHENSIVE INCOME (CAPTIONS 10 + 170)	(751,532)	(76,572,108)

STATEMENT OF CHANGES IN EQUITY - 01.01.2019-31.12.2019

	BALANCE AS AT 31.12.2018	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2019	ALLOCATION OF PROFIT/LOSS FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDER'S EQUITY AS AT 2019
							OPERAZIONI SU PATRIMONIO NETTO							
				RESERVES	DIVIDENDS AND OTHERS	CHANGES TO RESERVES	NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS	COMPREHENSIVE NET INCOME 2019	
SHARE CAPITAL														
A) ORDINARY SHARES	159,860,800		159,860,800											159.860.800
B) OTHER SHARES														
SHARE PREMIUM ACCOUNT	16.702.216		16.702.216	(15,831,990)										870,226
RESERVES														
A) FROM PROFITS	42,469,619	(802,759)	41,666,860	(35,625,319)										6,041,541
B) OTHER						101,325,070								101,325,070
REVALUATION RESERVES	(24,559,039)		(24,559,039)										25,392,893	833,854
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT FOR THE YEAR	(51,457,309)		(51,457,309)	51,457,309									(26,144,425)	(26,144,425)
SHAREHOLDERS' EQUITY	143,016,287		142,213,528										(751,532)	242,787,066

STATEMENT OF CHANGES IN EQUITY - 01.01.2018-31.12.2018

	BALANCE AS AT 31.12.2017	CHANGE IN OPENING BALANCE	BALANCES AS AT 01.01.2018	ALLOCATION OF PROFIT FROM PREVIOUS YEAR		INTERVENING VARIATIONS								SHAREHOLDERS' EQUITY AS AT 2018
						CHANGES TO RESERVES RESERVES	CHANGES TO EQUITY						COMPREHENSIVE NET INCOME 2018	
				RESERVES	DIVIDENDS AND OTHERS		NEW SHARES ISSUED	TREASURY STOCK BOUGHT	EXTRAORDINARY DIVIDENDS PAID	CHANGES TO CAPITAL INSTRUMENTS	DERIVATIVES ON TREASURY STOCK	STOCK OPTIONS		
SHARE CAPITAL														
A) ORDINARY SHARES	159,860.,00		159,860,800											159,860,800
B) OTHER SHARES														
SHARE PREMIUM ACCOUNT	16,702,216		16,702,216											16,702,216
RESERVES														
A) FROM PROFITS	42,227,179	(6,955,038)	35,272,141	7,197,478										42,469,619
B) OTHER														
REVALUATION RESERVES	555,760		555,760										(25,114,799)	(24,559,039)
CAPITAL INSTRUMENT														
TREASURY STOCK														
NET PROFIT (LOSS) FOR THE YEAR	9,439,548		9,439,548	(7,197,478)	(2,242,070)								(51,457,309)	(51,457,309)
SHAREHOLDERS' EQUITY	228,785,503		221,830,465		(2,242,070)								(76,572,108)	143,016,287

CASH FLOW STATEMENT

	INDIRECT METHOD	31.12.2019	31.12.2018
A	OPERATING ACTIVITIES		
1	OPERATIONS	34,334,071	(49,336,776)
	PROFIT (LOSS) FOR THE PERIOD (+/-)	(26,144,425)	(51,457,309)
	NET IMPAIRMENT ADJUSTMENTS	20,999,453	48,808,005
	- NET IMPAIRMENT LOSSES/REVERSALS ON PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (+/-)	1,373,130	1,621,727
	-NET ALLOCATIONS TO PROVISIONS FOR RISKS AND CHARGES AND OTHER EXPENSES/INCOME (+/-)	(188,287)	1,391,659
	- UNPAID TAXES, DUTIES AND TAX CREDITS (+/-)	12,901,307	(24,586,059)
	- OTHER ASSETS	25,392,893	(25,114,799)
2	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL ASSETS	95,443,872	(66,450,079)
	FINANCIAL ASSETS HELD FOR TRADING	4,908,637	31,803,558
	- FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	343.680.282	(340,416,942)
	- FINANCIAL ASSETS MEASURED AT AMORTISED COST	(252,900,284)	247,191,272
	- OTHER LIABILITIES	(244,763)	(5,027,967)
3	LIQUIDITY GENERATED (ABSORBED) BY FINANCIAL LIABILITIES	(519,140,503)	(224,611,981)
	- FINANCIAL LIABILITIES MEASURED AT AMORTISED COST	(520,144,158)	(222,592,112)
	- FINANCIAL LIABILITIES HELD FOR TRADING	(1,165,977)	(2,782,490)
	- OTHER LIABILITIES	2,169,631	762,622
B	NET LIQUIDITY GENERATED (ABSORBED) BY OPERATING ACTIVITIES INVESTMENT/DIVESTMENT ACTIVITIES	(389,362,560)	(340,398,837)
2	LIQUIDITY ABSORBED BY:	(1,115,990)	(813,049)
	PURCHASE OF TANGIBLE FIXED ASSETS	(1,029,524)	(517,407)
	PURCHASE OF INTANGIBLE FIXED ASSETS	(86,465)	(295,642)
	NET LIQUIDITY GENERATED (ABSORBED) BY INVESTMENT/DIVESTMENT ACTIVITIES	(1,115,990)	(813,049)
C	**FUNDING**		
	ISSUE (PURCHASES) OF CAPITAL INSTRUMENTS	100,522,311	
	DISTRIBUTION OF DIVIDENDS AND OTHER		(2,242,070)
	NET LIQUIDITY GENERATED (ABSORBED) BY FUNDING ACTIVITIES	100,522,311	(2,242,070)
	NET LIQUIDITY GENERATED (ABSORBED) DURING THE YEAR	(289,956,239)	(343,453,956)

	RECONCILIATION	31.12.2019	31.12.2018
	CASH AND CASH EQUIVALENTS AT START OF YEAR	589,310,877	932,764,833
	NET LIQUIDITY GENERATED/ABSORBED DURING THE YEAR	(289,956,239)	(343,453,956)
	CASH AND CASH EQUIVALENTS: EFFECT OF EXCHANGE RATE VARIATIONS		
	CASH AND CASH EQUIVALENTS AT THE YEAR END	299,354,638	589,310,877

OUR “MISSION”: CREATE VALUE ADDED FOR OUR CUSTOMERS, SHAREHOLDERS AND EMPLOYEES

Meeting room - Milan branch
Piazza Armando Diaz, 7

NOTES TO THE FINANCIAL STATEMENTS:

1 January - 31 December 2019

PART A: ACCOUNTING POLICIES

A.1 – GENERAL INFORMATION

The financial statements for the year ended 31 December 2019 of Banca UBAE S.p.A., in application of legislative decree no. 38 of 28 February 2005, have been prepared in accordance with international accounting standards – International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) – issued by the International Accounting Standards Board (IASB) and related interpretations of the International Financial Reporting Interpretations Committee (IFRIC) approved by the European Commission, pursuant to EU Regulation no. 1606 of 19 July 2002. The application of IFRS was also carried out with reference to the "systematic framework for the preparation and presentation of financial statements" (Framework).

In addition to the instructions contained in the Banca d'Italia circular no. 262 of 22 December 2005 "bank balance sheet: layout and compilation rules" (6th update of 30 November 2018), the documents on the application of IFRS in Italy prepared by the Italian Accounting Body (OIC) level have been consulted for interpretative guidance. On 25 March 2020, the Directors approved the financial statements and their availability to the shareholders under the terms provided for by article 2429 of the Civil Code. These financial statements will be submitted for approval to the Shareholders' Meeting on 29 / 04 / 2020 (first call) and 12 / 05 / 2020 (second call) and will be filed within the terms set by article 2435 of the Civil Code. The Shareholders' Meeting has the power to make changes to these financial statements. For the purposes of the provisions of IAS 10.17, the date taken into consideration by the Directors in preparing the financial statements is 27 March 2019, the date of approval by the Board of Directors.

Section 1 - Declaration of Conformity with International Accounting Standards

In accordance with the provisions of IAS1 to §14, we certify that the balance sheet for the year ended 31 December 2019 of Banca UBAE Bank comply with all the IAS / IFRS international accounting standards, including the Standing Interpretations Committee (SIC) and International Financial Reporting interpretative documents Interpretations Committee (IFRIC), in force on the date of approval of the balance sheet and endorsed by the European Commission.

For the interpretation and application of the new international accounting standards, reference was also made to the Framework for the Preparation and Presentation of Balance Sheets, i.e. the "Systematic framework for the preparation and presentation of balance sheets", issued by the IASB. On an interpretative level, the documents on the application in Italy of the IAS / IFRS accounting standards prepared by the Italian Accounting Body (OIC) and by the Italian Banking Association (ABI) were also taken into consideration.

Section 2 - General drafting principles

The financial statements are made up of the balance sheet, the income statement, the statement of overall profitability, the statement of changes in equity, the cash flow statement and these explanatory notes and is accompanied by the directors' report on management performance and the situation of Banca UBAE.
The accounts in the financial statements are matched in the Bank's accounting books. The financial statements have been drawn up with a view to business continuity and referring to the general drafting principles listed below:

- principle of truth and correctness and completeness in the presentation of theequity, economic and financial situation;
- principle of economic competence;
- principle of consistency of presentation and classification from one year to another;
- principle of the prevalence of the substance over the form;
- principle of prudence in the exercise of the judgments necessary for making the estimates requested in conditions of uncertainty, so that the assets or revenues are not overestimated and the liabilities or costs are not underestimated, without this leading to the creation of hidden reserves or excessive provisions;
- principle of information neutrality;
- principle of relevance / significance of information.

In preparing the financial statements, the layouts and compilation rules set out in Banca d'Italia's circular no. 262 of 22/12/2005, updated on 30 November 2018, as well as further requests for information indicated in the subsequent clarifications of Banca d'Italia. In addition, complementary information deemed appropriate to supplement the representation of the financial statement data was provided, although not specifically required by law.
The balance sheet and profit and loss account schedules, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement are drawn up in euro units, while the explanatory notes, when not otherwise indicated, are expressed in thousands of euros. For comparative purposes, the financial statement schedules and, where required, the tables in the explanatory notes also show the data relating to the previous year.
The assets and liabilities, costs and revenues are not compensated for each other, unless this is permitted or required by international accounting standards or by the provisions contained in the latest update of "circular no. 262".
In the balance sheet, in the income statement and in the statement of comprehensive income, the accounts that do not present amounts for the year to which the financial statements refer, or for the previous one, are not indicated. If an element of the assets or liabilities falls under several items of the balance sheet, its explanatory note also highlights its traceability to items other than the one in which it is entered, if this is necessary for the purposes of understanding the financial statements.

In the income statement and in the relative section of the explanatory notes, revenues are indicated without a sign, while costs are indicated in parentheses. In the statement of comprehensive income, negative amounts are indicated in parentheses.
The explanatory note does not expose the items and tables provided by Banca d'Italia's provision no. 262/2005 relating to items not applicable to Banca UBAE.

The criteria adopted for the preparation of the financial statements have remained unchanged with respect to those used for the financial statements of the previous year.
Following consultations at international level between Regulators, Governments and Bodies responsible for preparing and interpreting the accounting rules, in March 2009 the IASB approved an amendment to IFRS 7 in order to improve the disclosure of fair value measurement and reinforce previous disclosure requirements regarding liquidity risk associated with financial instruments.

Very briefly, with reference to:

- the criteria for determining the fair value of financial instruments, the changes introduce disclosure obligations, on the basis of what is already provided in SFAS 157, in terms of hierarchy of fair values on three levels determined on the basis of the significance of the inputs to the valuations;
- liquidity risk; a new definition is introduced (such as "risk that an entity may find it difficult to fulfil the obligations associated with financial liabilities that are settled through the delivery of cash or other financial assets") as well as more quantitative information on the methods of managing the liquidity of derivative instruments.

The main innovation referred to in the amendment to IFRS7 is the introduction of the concept of fair value hierarchy (Fair Value Hierarchy, hereinafter also "FVH") divided into three different levels (Level 1, Level 2 and Level 3) in descending order of observability of the inputs used to estimate fair value. For the criteria for determining fair value, reference is made to what is indicated in the specific notes in relation to section 4 below.

Section 3 - Events subsequent to the balance sheet date

With reference to the events that have occurred, the reference date of these financial statements and its approval by the Board of Directors on 25/03/2020, please refer to the paragraph "Significant events after the end of the year".

Information on business continuity

As regards the "going concern" assumption, it should be noted that, in compliance with the indications provided in document no. 4 of 3 March 2010 issued jointly by Banca d'Italia, Consob and Isvap, concerning "Information to be provided in the financial reports on the verifications for the impairment of assets (impairment test)", on the contractual clauses of the financial debts, on the restructuring of payables, and on the "fair-value hierarchy" which refers to the corresponding document no. 2 again issued jointly by the three Authorities on 6 February 2009, the Bank has the reasonable expectation of continuing with its operational existence in the foreseeable future and has therefore prepared the financial statements on the assumption of business continuity as a ”going concern”. More detailed information on the main problems and variables existing on the market is published in the Directors’ Management Report.

Section 4 - Other aspects

The financial statements are subject to the statutory audit of the firm BDO Italia S.p.A., pursuant to articles 14 and 16 of legislative decree no. 39 of 27 January 2010, to which the assignment for the period 2012-2020 was conferred by the shareholders’ meeting of 10/09/2012. The annual remuneration set upon the assignment amounts to 56 thousand euros plus VAT.

4.1 Amendment of the Accounting Standards approved by the European Commission

With respect to the criteria used in the financial statements at 31 December 2018, the new international accounting standard entered into force, starting from 1 January 2019.
The 2019 financial statements have been prepared in accordance with the international accounting standards IAS / IFRS in force on the reference date. See the contents of the paragraph “Declaration of compliance with international accounting standards”.
The accounting principles adopted for the preparation of this document, with reference to the classification, registration, measurement and cancellation phases of financial assets and liabilities, as well as for the methods of recognizing revenues and costs, are modified with respect to those adopted for the preparation of the Financial Statements as at 31 December 2018. These changes essentially derive from the mandatory application, as of 1 January 2019, of the following international accounting standard:

- **IFRS 16 “Leases”**, approved by the European Commission through regulation.

1986/2017, which resulted in the cancellation and replacement of IAS 17, IFRIC 4, SIC 15 and SIC 27; please refer to the description in the paragraph “Effects ofthe first application of IFRS 17”; please refer to the description in the paragraph “Effects of the first application of IFRS 16”.

- In preparing the 2019 financial statements, the Bank also took into account some accounting principles and amendments that are in force for the financial years that begin on 1 January 2019. The indication of the new accounting principles and the changes made to existing accounting standards approved by the EU, noting that they did not have material impacts on the data shown in the half-year report as at 31 December 2019:
- IFRIC 23 Uncertainty over Tax Treatments;
- Prepayment Features with Negative Compensation (Amendments to IFRS 9);
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28);
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19);
- Annual cycle of improvements to IFRS 2015-2017 – amendments to IFRS 3,
- IFRS 1, IAS12 and IAS 23

Principles issued but not yet in force

The new international accounting standards or the amendments approved by the European Commission, the mandatory application of which starts from 1 January 2020 are shown below. The Bank considers insignificant the impacts deriving from the adoption of the following interpretations and changes to the existing international accounting standards:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a Business (Amendment to IFRS 3 Business Combinations);
- Definition of Material (Amendment to IAS 1 and IAS 8);
- IFRS 17 Insurance Contracts.

First application of IFRS 16 - Leasing

IFRS16 introduces a new accounting criterion for leasing contracts, both for landlords and tenants. The new standard innovates the definition of leasing and requires that a lessee recognizes the assets and liabilities deriving from a lease contract. The objective of IFRS16 is to ensure that tenants and lessors provide appropriate information in a manner that faithfully represents the transactions. The information therefore provides users of the financial statements with the elements to evaluate the effect of the leasing on the financial position, on the economic result and on the financial flows of the entity. The new standard provides a definition of lease and introduces a criterion based on the control (right of use) of an asset to distinguish leasing contracts from service contracts, identifying as discriminating the identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from the use of the asset and the right to direct the use of the asset underlying the contract.

The transactions excluded from the scope of application of the standard include, specifically:
- the intellectual property licenses granted by the lessor pursuant to IFRS 15 "Revenues from contracts with customers";
- the rights held by the lessee under license agreements pursuant to IAS 38 "Intangible assets".

The standard also recognizes the possibility of applying some exceptions to recognition:
- for short-term leases, with a contractual term of 12 months or less;
- for leases in which the underlying asset is of low value.

The two conditions necessary for the existence of a leasing contract are:
- the existence of an identified and physically distinct asset;
- the right to control the use of the asset which is expressed in the lessee's right to obtain substantially all the economic benefits deriving from the use of the asset during the period of use and in the right to direct the use of the asset, establishing how and for what purpose it is used, throughout the period of use. Therefore, there must be no substantial replacement right by the lessor.

In addition to leasing contracts proper, this also includes, for example, leasing, rental, leasing and loan contracts. For a contract that contains a leasing element and additional non-leasing components, (such as in the case of leasing an asset and providing a maintenance service), the principle provides for the accounting of each leasing component separately compared to non-leasing components. The consideration due must therefore be allocated to the various components on the basis of the relative stand-alone prices, following the logic of IFRS 15 envisaged for service contracts. As a practical expedient, a lessee can however choose, by underlying asset class, not to separate the non-leased items from the leasing components and to account for all the components as a lease.
The most significant changes introduced by the standard concern the lessee, for whom a single accounting model is defined, without distinction between operating and financial leasing, with an impact on both the income statement and the balance sheet.

Any leasing contract in fact originates for the lessee the accounting respectively in the liabilities and assets of the balance sheet of:

- a lease liability, equal to the present value of future payments determined using the discount rate defined at the beginning of the leasing contract;
- a right of use (right of use on the asset, hereinafter RoU), equal to the lease liability increased by the initial direct costs.

The lessee must evaluate the activity consisting of the RoU by applying the cost model. The income statement will essentially be impacted by the amortization charge for the right of use, recognized among operating costs, and for the interest accrued on the lease liability, recognized in the interest margin.
The distinction between operating and financial leasing remains for the lessor, for whom the approach of IFRS16 does not introduce substantial changes compared to IAS 17.
As regards the first application of the principle, retrospective full or modified application is allowed. The full retrospective option provides for the application of IFRS 16 for the year 2018 by recording the impact on shareholders' equity as of 1 January 2018 as if IFRS 16 had always been applied, through a restatement of the comparative data. The modified retrospective option instead provides:

- for 2018 the application of IAS 17 without the need for restatement of comparative data;
- for 2019 the application of IFRS 16 with impact on shareholders' equity as of 1 January 2019 (under the item reserves) of the cumulative effect of the new standard on the date of first application of only the contracts in force on that date and the indication the impacts deriving from the first application of the standard in the notes to the financial statements.

UBAE has chosen to apply the modified retrospective option which does not provide for the restatement of the 2018 comparative data. The application of the principle concerned no. 12 contracts of which no. 5 for real estate rental and 7 for company car rental. As of 31 December 2019, the Right-of-Use Asset amounts to 286,774.14 euros and the Lease Liability is equal to 289,624.11 euros. The economic impact deriving from the application of the new principle, deriving from the difference between the fees paid in the reference period equal to the amortization added to the interest portion totalled 165,384.28 euros.

4.2 Statement of Comprehensive Income

The statement of overall profitability, introduced from 2009 and prepared in the light of the changes to IAS1, includes revenue and cost items which, in accordance with international accounting standards, are not recognized in the income statement but recognized in equity.

The overall profitability therefore expresses the change that the equity has had in a year deriving from both the business operations that currently form the operating result and from other operations net of the tax effect, such as changes in the value of securities classified in the FVOCI portfolio, tangible and intangible assets, hedges of foreign investments and financial flows, exchange differences and actuarial gains or losses on defined benefit plans for employees, recognized in equity on the basis of a specific accounting standard.

4.3 Use of estimates and assumptions in the preparation of the balance sheet (with specific reference to the provisions of IAS 1 paragraph 125 and document no. 2 dated 6 February 2009 jointly issued by Banca d'Italia / Consob / Ivass)

The preparation of the financial statements also requires the use of estimates and assumptions that can have significant effects on the values recorded in the balance sheet and in the income statement, as well as on the information relating to the potential assets and liabilities shown in the financial statements. The processing of these estimates implies the use of available information and the adoption of subjective assessments, also based on historical experience, used for the purpose of formulating reasonable assumptions for the detection of management events.
By their nature, the estimates and assumptions used may vary from period to period; therefore, it cannot be excluded that in subsequent years the current values recorded in the financial statements may also differ significantly as a result of the change in the subjective assessments used. The main cases for which the use of subjective assessments by the Board of
Directors is most requested are:

- the quantification of losses due to impairment of receivables and, in general, of other financial assets;
- the determination of the fair value of the financial instruments to be used for reporting purposes;
- the use of valuation models to measure the fair value of financial instruments not listed on active markets;
- the quantification of personnel funds and provisions for risks and charges;
- estimates and assumptions on the recoverability of deferred tax assets.

The description of the accounting policies applied on the main financial statement aggregates provides the information details necessary for the identification of the main assumptions and subjective assessments used in the preparation of the financial statements.
For further detailed information regarding the composition and the related book values of the items affected by the estimates in question, please refer to the specific sections of the explanatory notes.

4.4 Information to be provided in the financial reports on the impairment tests of the assets (with specific reference to the provisions of 14539 and the joint Banca d'Italia / Consob / Ivass document no. 4 dated 3 March 2010)

With reference to the criteria used for the valuation of securities classified as HTC&S, the Board of Directors assesses the existence of objective evidence of nontemporary impairment.

4.5 Contributions to deposit guarantee systems and resolution mechanisms

With the Directives 2014/49/ EU (Deposit Guarantee Schemes Directive "DGSD") of 16 April 2014 and 2014/59 / EU (Bank Recovery and Resolution Directive "BRRD") of 15 May 2014 and the establishment of the Mechanism of Single Resolution (EU Regulation no. 806/2014 of 15 July 2014), the European legislator has made significant changes to the regulation of banking crises, with the strategic objective of strengthening the single market and systemic stability. Following the transposition of these directives into Italian law, starting from 2015, credit institutions are obliged to provide the financial resources necessary for the financing of the Interbank Deposit Protection Fund (FITD) and the National Resolution Fund, merged into the Single Resolution Fund (FRU), starting in 2016, through the payment of ordinary contributions and any extraordinary contributions.
In compliance with the DGSD directive, the FITD has provided that Italian banks must pay ordinary annual contributions until the target level is reached, equal to 0.8% of the total protected deposits of Italian banks participating in the FITD. This level must be compulsorily reached by 3 July 2024. The amount of the contribution requested from the individual bank is proportionate to the size of its own protected deposits existing on 30 September of each year with respect to the total of protected deposits of Italian banks participating in the FITD and the degree of risk relating to the consortium bank having protected deposits with respect to the degree of risk of all the other banks participating in the FITD.

According to the provisions of the BRRD, Italian banks must pay ordinary annual contributions to endow the FRU with financial resources equal to at least 1% of the total protected deposits of all credit institutions authorized in all participating Member States. This level must be compulsorily reached by 1 January 2024. The contributions of each institution are calculated on the basis of the ratio between the amount of its liabilities (net of protected deposits and own funds and, for entities belonging to a group, net of intra-group liabilities) compared to the total liabilities (net of protected deposits and own funds) of Italian banks and the degree of risk relating to each credit institution with respect to the degree of risk of all the other Italian banks.
It should be noted that if the available financial means of the FITD and/or the FRU are not sufficient, respectively to guarantee the repayment to the depositors or to finance the resolution, it is envisaged that the credit institutions must provide by paying extraordinary contributions.
In the 2020 financial statements, ordinary and extraordinary contributions were recognized - on an accrual basis - under item 160. Other administrative expenses "in application of the interpretation IFRIC 21"Taxes", according to which the liability relating to the payment of a tax (the contributions in question were considered comparable to a tax from an accounting point of view), arises at the time of the socalled "binding fact", i.e. when the obligation to pay the annual fee arises.

The ordinary contribution of Banca UBAE to the FRU, paid in the first half of the year, for the year 2019 amounted to approximately 1.4 million euros (1.6 million euros was the contribution referred to the year 2018).
In 2019, the extraordinary contribution to the National Resolution Fund paid in the first half of the year was approximately 520 thousand euros (approximately 584 thousand euros for the contribution relating to 2018).

4.6 Information on the ECL

Foreword
Using the RiskCalc tool provided by Moody's, internal scores are processed for each counterparty (= alphanumeric score assigned internally to each counterparty) and $\mathbf{PD}_{PIT}$. These parameters are calculated at the time of assignment / renewal of credit by the Credit Assessment and Processing Department on the basis of financial data (balance sheets) and qualitative considerations (qualitative overlay). The $\mathbf{LGD}_{PIT}$ data are differentiated by debt seniority (the prevalent debt seniority for the Bank is "unsecured term loan"), by type of counterparty (bank or corporate) and by geographical area (Eurozone, US, MENA, Asia) and provided by Moody's.

For the purposes of calculating the expected loss, or the accounting provision, macroeconomic scenarios are applied to these risk parameters to allow their recalculation in a "forward looking" perspective.
The first PDFL data processed using the CreditEdge tool (Moody's) had highlighted
the following methodological weaknesses: excessive volatility (due to the low number of the reference sample) and flattening of the output data (due to the excessive concentration of the counterparties within the last remaining decile).

For this reason, the Bank has decided to start a project to customize macroeconomic scenarios in order to take due account of the geographical peculiarities of the credit portfolio.
Moody's has therefore customized scenarios and models (MAKS - Moody's Analytics Knowledge Services team) according to geographical areas (Europe, USA, MENA and Asia).

Three statistical regression models were selected (one for EU / US, one for MENA and one for ASIA) based on statistical performance, the predictive capacity of macroeconomic variables and their explanatory power from an economic point of view. It should be noted that in the light of the statistical validation tests, Moody's deemed these models adequate for IFRS9 purposes. The model validation process, within Moody's, follows the best practices in the sector and is entrusted to a different team than the one that developed the model.

With regard to the macroeconomic scenarios to be applied in order to foresee the point-in-time parameters over time and transform them into forward-looking data, the Bank has decided to apply the following **combined scenario**:
40% baseline scenario + 30% upside + 30% downside

Description of UBAE statistical models

PD MODEL

The models customized by Moody's for UBAE are differentiated by geographic area, in particular:

1. Europe and USA
2. MENA
3. ASIA

The models were selected on the basis of the predictive capacity of the macroeconomic variables, their explanatory power, the statistical performance and the validation tests carried out.
With these models it is possible to estimate the 12-month PDs connected to a future time horizon and based on macroeconomic scenarios.

Using the data provided by UBAE, Moody's has elaborated a ten-year historical series of CCAEDF or PIT PD (probability of default adjusted according to the economic cycle) and FSOEDF or TTCPD (probability of default calculated only on financial data) and, using EDF data, has modelled the Z index (standard indicator that measures the change in credit quality).
The macroeconomic variables capable of explaining the trend of the historical Z index are then selected. The regression model based on these macroeconomic variables will enable us, on the basis of future estimates of the variables, to estimate the projections of the Z index. Based on the future Z index and the TCCPD, the projections of the PIT PD can be derived. An SFA (Single Factor Analysis) is then conducted to select the macro variables with greater predictive power on the Z index (highest R-square, ρ value less than 5%, stationary).
More than 33,000 combinations of variables have been tested (with 2 and more variables) -> application of multivariate analysis criteria (based on statistical principles) ->approximately 7,500 selected models -> elimination of some combinations, 1 variable by category, model performance, greater economic significance -> 10 candidate models (4 for EU-US, 4 for ASIA, 2 for MENA). For each region, the model that performed best was selected. The level of R-squared (predictive ability) found for these models according to the experience of the Moody's team is in line with the projects developed in the past and stands above the sector average for this type of model.

From the data processed at portfolio level we move on to data differentiated by score class or by individual counterparty using a logistic spreading approach. Once the model has been constructed, on the basis of the individual PDPITs for each counterparty, it is possible to calculate the model predicted PD and, by "offset for scaled PD", to obtain the forward-looking PD including the qualitative component to be used for the purposes of the provisions.

LGD MODEL

The initial situation consists of **LGD PIT** data deriving from RiskCalc and differentiated by:

- **Type of counterparty** (banks and corporate);
- **Type of debt seniority** (unsecured term loan, secured term loan, unsecured revolving loan); from the mapping of Moody's debt seniority and UBAE's technical form, the "unsecured term loan" debt seniority emerged as prevalent, and was therefore used as a reference in the quantitative analyses conducted)

Geographic area (US, MENA, EUROZONE, ASIA)

From the estimate of the historical series of LGD PIT for the ten-year time horizon, a linear regression model is developed according to macroeconomic variables that ensure greater predictive capacity and that perform better from a statistical point of view.
From the single factor analysis, the macroeconomic variables differentiated by geographical area are selected and three models are constructed:

1. Europe and USA
2. MENA
3. ASIA

The predicted LGD values are calculated based on the model and estimates of the macroeconomic variables. More than 60,000 model combinations of variables were tested (with 2 and more variables) -> application of multivariable analysis criteria (based on statistical principles) -> approximately 6,800 selected models -> elimination of some combinations, 1 variable by category, model performance, greater economic significance -> 13 candidate models (5 for EU-US, 5 for ASIA, 3 for MENA). For each region, the model that performed best and that passed the statistical validation tests was selected.

A.2 MAIN BALANCE SHEET ITEMS

1 - Financial activities assessed at fair value with impact on income statement (FVTPL)

(a) Classification criteria

Financial assets held for trading are classified in this category as financial instruments held with the intent of generating short-term profits deriving from changes in the prices of such instruments and derivative contracts not designated as hedging (HTS business model), in particular:

- debt securities (listed/not listed);
- capital securities (listed);
- capital securities (not listed) only when their fair value can be determined reliably;
- derivative contracts (except for those designated as hedging instruments) which have a positive fair value at the balance sheet date; if the fair value of a derivative contract subsequently becomes negative, it is accounted for under financial liabilities held for trading.

This item also includes financial assets that are mandatorily valued at fair value, represented by financial assets that do not meet the requirements for measurement at amortised cost or at fair value with an impact on the overall profitability (i.e. SPPI test not passed) or that are not held as part of an HTS business model, and financial assets designated at fair value, i.e. financial assets as defined at the time of initial recognition. In relation to this case, an entity can irrevocably designate an entry for a financial asset as measured at fair value with an impact on the income statement if, and only if, an appreciable inconsistency is significantly reduced accordingly.
The derivative is a financial instrument (or another contract) having all three of the following characteristics:
a) its value changes in response to changes in a specific interest rate, the price of a financial instrument, the price of a commodity, the exchange rate of a foreign currency, a price or rate index, a credit rating or a credit index or other variables;
b) does not require an initial net investment or requires an initial net investment lower than what would be required by other types of contracts from which similar responses can be expected to varying market factors;
c) will be settled at a future date.

The category consists of financial and credit derivatives.

The financial derivatives category includes forward purchase and sale contracts for securities and currencies, derivative contracts with underlying security and those without underlying security linked to interest rates, indices or other assets, as well as derivative contracts on currencies.

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linked to interest rates, indices or other assets, as well as derivative contracts on currencies. Derivative contracts also include those that may be incorporated in other complex financial instruments, and have been recognised separately from the host instrument as such:

- the economic characteristics and risks of the embedded derivative are not strictly correlated with the economic characteristics and risks of the primary contract;
- the embedded instruments, even if separated, satisfy the definition of a derivative;
- the hybrid instruments to which they belong are not valued at fair value with changes in value shown in the income statement.

The item also includes equity investments subject to significant influence or joint control (respectively, IAS 28 and IFRS 10) which enable them to be assigned to this portfolio.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category measured at fair value with impact on the income statement into one of the other two categories envisaged by IFRS 9 ("financial assets valued at amortised cost" or "financial assets measured at fair value with an impact on total profitability"). The transfer value is represented by the fair value at the time of the reclassification. The reclassification date and its value will be considered for the calculation of the effective interest rate of the reclassified asset and for the allocation activity in the various stages of credit risk during the assignment stage.

(b) Registration criteria

The initial recognition of debt and equity securities occurs at the "settlement date" while the derivative instruments are recognised at the "registration date". The initial value is equal to the cost (purchase price) understood as the fair value of the instrument, without considering any transaction costs or income directly attributable to the instrument itself, which are recorded in the income statement.

(c) Valuation criteria

Subsequent to initial recognition, financial assets held for trading are measured at fair value with recognition of the changes found in the income statement under item 80 "Net result from trading activities for the determination of the fair value of financial instruments listed on an active market, market quotations are used.
An active market is defined as one where the prices, which reflect normal market transactions, are promptly and regularly available through stock exchanges, brokers, intermediaries, companies in the sector, listing services or authorised bodies, and express the price of effective and regular market transactions taking place in a normal reference period.
With regard to securities, the Bank has identified two conditions for a security to be considered listed on an active market, namely:

- The security must be traded on a regulated market or in an alternative trading system;

the listing on a regulated market, therefore, is not in itself a condition that is necessary or sufficient to define an active market;

- The price expressed by that market must be "significant", that is the result of regular and effective transactions between counterparties who freely decide to buy and sell and are not forced to do so by their particular stressful conditions.

In the absence of an active market, for the purposes of determining the fair value of the securities, all relevant market information is considered that are in some way available especially, where possible, parameters directly observable on the market such as: prices of recent transactions or contributions and/or market quotations available at the valuation date, even if related to a market considered not active; valuations provided by the issuer or a calculation agent or in any case by an external valuation service, even if, since these are not prices deriving from actual market transactions, they are considered with particular caution and subject to verification by the Bank; mark-to-model valuations, carried out by discounting the expected future cash flows of the security taking into account all the available information.
With regard to other financial instruments, i.e. unlisted derivatives, the fair value corresponds to the presumable replacement cost obtained from the price of listed derivative contracts with identical characteristics (for underlying, working price and maturity) or discounting future financial flows (certain or estimated) at market rates measured by information circuits normally used internationally and/or applying best-practice valuation models.

(d) Cancellation criteria

Financial assets held for trading are derecognised when the contractual rights on the cash flows deriving from them expire or when the financial assets are sold with the substantial transfer of all the risks and benefits associated with them. Financial assets sold are derecognised even when the bank retains the contractual right to receive the financial flows deriving from them, but at the same time it assumes the contractual obligation to pay such funds to third parties.

Securities received as part of a transaction that contractually provides for the subsequent sale, and securities delivered as part of a transaction that contractually provides for repurchase, are not recorded or written off in the financial statements.

2 - Financial activities assessed at fair value with impact on overall profitability (FVOCI)

(a) Classification criteria

This category includes financial activities that meet the following conditions at the same time:

a) the financial activity is held according to a business model whose objective is achieved both by collecting the cash flows provided for in the contract or by selling ("Hold-to-Collect-and-Sell" business model);

b) the contractual terms of the financial activity provide, at certain dates, for financial flows represented solely by payments of principal and interest on the amount of outstanding principal to be repaid (i.e. SPPI test passed).

The category also includes capital instruments, not held for trading purposes, for which at the time of initial recognition the option was taken for fair value designation with impact on the overall profitability. The following items are therefore included under this heading:

a) debt securities according to a Hold-to-Collect-and-Sell business model which have passed the SPPI test;
b) shareholdings, which cannot be qualified for control, connection and joint control, which are not held for trading, for which the option has been taken for designation at fair value with impact on overall profitability;
c) financial activities according to a Hold-to-Collect-and-Sell business model, which have passed the SPPI test.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets. In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category measured at fair value with impact on the income statement into one of the other two categories envisaged by IFRS 9 ("financial assets valued at amortised cost" or "financial assets measured at fair value with an impact on total profitability"). The transfer value is represented by the fair value at the time of the reclassification. In the case of reclassification from the category in question to that of amortised cost, the cumulative gain (loss) recorded in the valuation reserve is adjusted to reflect the fair value of the financial asset at the date of the reclassification. In the case of reclassification in the fair value category with impact on the income statement, the cumulative gain (loss) recorded previously in the valuation reserve is reclassified from equity to profit (loss) for the year.

b) Registration criteria

The initial registration of debt and equity securities occurs at the "settlement date" and at the disbursement date for loans. Financial instruments are recognised at the time of initial registration at a value equal to the fair value generally coinciding with the cost (purchase price) including any transaction costs or income directly attributable to the instruments themselves.

c) Valuation criteria

Following initial recognition, financial assets are measured at fair value with the recognition in the income statement of the instrument's remuneration calculated on the basis of the IRR method, while changes in fair value are recognised in a specific equity item called "Reserve from evaluation" until the financial asset is cancelled or a loss in value is recorded; at the time of disposal, the accumulated profit or loss is then written off on the income statement. The equity instruments for which the choice was made for classification in this category are assessed at fair value; however, the amounts recognised as a contraentry to the shareholders' equity (statement of comprehensive income) must not subsequently be transferred to the income statement, even in the case of sale. The only component referable to the equity instruments in question that is recognised in the income statement is represented by the related dividends.

The fair value is determined on the basis of the criteria already illustrated for financial assets measured at fair value with an impact on the income statement.
Financial assets valued at fair value with an impact on the overall profitability – in the form of debt securities and loans – are subject to verification of the significant increase in credit risk (impairment) required by IFRS 9, like the assets at amortised cost, with the consequent recognition in the income statement of a value adjustment to cover expected losses.
All instruments are classified into three categories:

a) financial activities that are performing in line with expectations (stage 1 assigned on origination date);
b) financial activities that are performing significantly below expectations (stage 2 bonis that have registered a deterioration of their creditworthiness);
c) non-performing activities: stage 3 or non-performing (NP).

Classification must be based on the performance of the counterparty's creditworthiness. Credit worthiness on the date on which the credit is incurred must be compared with the credit rating at the valuation date. For the activities included in the first class of merit, a valuation process must be applied to expected losses over a 12-month time span. For activities in classes two and three, the evaluation process must be applied over the instrument's entire life. The process for classes 1 and 2 is generic, while it is analytical for NP positions (3).

Capital securities are not subject to the impairment process.

d) Cancellation criteria

Financial assets are derecognised when the contractual rights on the financial flows deriving from them expire or when the financial assets are sold, transferring all the risks and benefits associated with them. The economic result deriving from the sale of financial assets is charged to the income statement, except for equity instruments.

3 - Financial activities at amortised cost

(a) Classification criteria

This category includes financial activities that meet both the following conditions:
- the financial asset is held according to a business model whose objective is achieved by collecting the cash flows provided for in the contract ("Hold-to-Collect" business model);
- the contractual terms of the financial activity provide, at certain dates, for financial flows represented solely by payments of capital and interest on the outstanding amount of the principal to be repaid (i.e. SPPI test passed).

Assuming the two requisites above have been met, this category includes:

- commitments with banks in various technical forms;
- commitments with customers in various technical forms;
- debt securities.

Reclassifications to other categories of financial assets are only possible if the entity changes its business model for the management of financial assets.

In such cases, which are likely to be very infrequent, financial assets may be reclassified from the category valued at amortised cost into one of the other two categories envisaged by IFRS 9 ("financial assets measured at fair value with impact on the income statement" or "financial assets valued at fair value with impact on overall profitability").

The transfer value is represented by the fair value at the time of the reclassification. In the event of reclassification from the category in question to fair value with impact on the income statement, the cumulative profit (loss) will be shown in the income statement. In the case of reclassification in the fair value category with an impact on total profitability, the cumulative gain (loss) will be recorded in the specific valuation reserve under shareholders' equity.

(b) Registration criteria

The initial registration of receivables takes place on the date of disbursement or, in the case of a debt security, on the settlement date, based on the fair value of the financial instrument that is equal to the amount disbursed, or subscription price, inclusive of costs or income directly attributable to the same and determinable from the beginning, even if liquidated at a later date. All charges that are reimbursed by the debtor counterparty or which are attributable to internal administrative costs are excluded. For credit transactions that may be concluded under conditions other than market conditions, the fair value is determined using specific valuation techniques; the difference with respect to the amount disbursed or to the subscription price is shown directly on the income statement.

(c) Valuation criteria

Following initial registration, financial assets held to maturity are measured at amortised cost using the effective interest rate method. The result deriving from the application of this method is shown on the income statement under item 10 (interest income and similar income). Profits or losses referring to these assets are recognised in the income statement when the assets are cancelled or impaired.
At the time of preparing the financial statements or interim reports, the positions in this category are subject to impairment with recognition in the income statement of the identified value adjustments.

All the instruments are classified into three categories:

- financial activities that are performing in line with expectations (stage 1 assigned on origination date);
- activities that are performing significantly below expectations (stage 2 - bonis that have registered a deterioration of their creditworthiness, with expirations above 30 days or subject to the granting of tolerance measures - forbearance);
- deteriorated activities (stage 3 or non-performing).

Classification must be based on the performance of the counterparty's creditworthiness. Credit worthiness on the date on which the credit is incurred must be compared with the credit rating at the valuation date. For the activities included in the first class of merit, a valuation process must be applied to expected losses over a 12-month time span. For the activities in classes two and three, the evaluation process must be applied over the entire residual life of the instrument. The process for classes 1 and 2 is generic, while it is analytical for non-performing positions (stage 3). The financial assets in question, where they are performing (stage 1 and 2) are subject to an assessment, aimed at defining the value adjustments to be recorded in the financial statements, at the level of individual credit (or "tranches"), according to the risk parameters represented by probability of default (PD), loss given default (LGD) and exposure at default (EAD). The assessment also takes into account the guarantees received for the purposes of credit risk mitigation.

The valuation model for the generic fund is established according to the following formula:

ECL = EAD x PD x LGD
where:
ECL = *Expected Credit Loss*
EAD = *Exposure At Default*
PD = *Probability of Default*
LGD = *Loss Given Default*

The collective write-downs of securities and receivables are therefore calculated according to the following principles:

- at each reporting date, if the credit risk of a financial instrument is not significantly increased with respect to the disbursement or purchase date (stage 1), the expected loss for such financial instrument should be measured as the amount of expected losses in the following 12 months;
- at each reporting date, if the credit risk of a financial instrument is significantly increased compared to the date of disbursement or purchase (stage 2), the expected loss for such financial instrument is measured as the amount of expected losses in the instrument's residual life (lifetime); For the purposes of staging financial assets, each activity in the origination is classified in "stage 1" and subsequently:
- in the field of securities, evidence of a significant increase in credit risk (and therefore the security's transfer to "stage 2") is shown by the worsening of two notches of the rating assigned to the instrument by external rating firms, together with a final speculative rating level;
- in the field of loans, the deterioration of the original rating expressed in percentage terms (internally defined and differentiated by class of scores) is considered evidence of a significant increase in credit risk.

The PDs used are estimated starting from PD point-in-time data (based on quantitative and qualitative information and data) to which a combined macroeconomic scenario is applied that determines the forward-looking PD for each counterparty or issuer.

The LGDs used are estimated on the basis of the time series and (using macroeconomic models) are transformed from "point-in-time" into "forwardlooking". These data are differentiated by type of counterparty and by technical form of the exposure and can be adjusted according to the guarantees received.
For the classification of impaired exposures in the various risk categories (nonperforming loans, probable defaults, past-due and/or overdue impaired exposures), the Bank refers to the regulations issued by the Banca d'Italia and the EBA guidelines on the management of NPLs. Impaired loans are subject to an analytical evaluation process regardless of amounts. The amount of the value adjustment to be made to each credit is equal to the difference between the book value of the same at the time of valuation (amortised cost) and the present value of expected future cash flows, calculated by applying the original effective interest rate. Expected cash flows take into account recovery forecasts, estimated recovery times and the presumed realisation value of any guarantees. Cash flows relating to receivables whose recovery is expected within a short period are not discounted. The original effective rate of each loan remains unchanged over time even if a restructuring of the relationship has taken place which has led to the change in the contractual rate and even if the relationship becomes, in practice, non-interest bearing. The losses in value are shown on the income statement.

d) Cancellation criteria

Financial assets measured at amortized cost are derecognised from the financial statements when the contractual rights to the cash flows deriving from them expire or when the financial assets are sold with the substantial transfer of all the risks and benefits connected to them.

6 – Tangible assets

(a) Classification criteria

These are material assets (property, technical plant, furniture, furnishings and equipment of all kinds) held for functional use and which are expected to be used for more than one period. Tangible assets also include real estate investments and costs for improvements to third party assets, when they are separable from the assets themselves if such costs do not have autonomous functionality and usability but expect future benefits from them, are included in "other assets" and are amortised over the shortest period between that of foreseeable usability of the improvements and that of the residual duration of the lease.

(b) Registration criteria

Tangible assets are recorded at purchase cost including any accessory charges directly attributable to the purchase and commissioning of the asset. Extraordinary maintenance costs that result in an increase in future economic benefits are recognised as an increase in the value of the assets, while ordinary maintenance costs are shown on the income statement.

(c) Valuation criteria including the income components

Tangible assets are valued at cost less cumulative amortisation and any permanent loss of value in accordance with IAS 16. The same criterion is also applied to property investments using the option of valuation subsequent to cost. Tangible assets are systematically depreciated over their useful life, understood as the period of time in which it is expected that the asset can be used, adopting the straight-line method as the amortisation criterion. Works of art are not subject to depreciation as their value is generally expected to increase over time. In consideration of the fact that tangible assets may comprise components of different value such as land, whether they are separate or included in the value of the building, are not subject to amortisation as assets which possess an indefinite useful life.

At each balance sheet or interim report, in the presence of symptomatic situations of the existence of permanent losses in value, the recoverable value of the asset is compared. Whichever is greater: its value in use (current value of the assets) and its economic functions, or its exchange value (presumable transfer value net of transaction costs) and its carry-forward amount net of amortisation. Any adjustments are recorded in the income statement under item 210 "Net value adjustments and/or write-backs on tangible assets".
If the reasons that led to the recognition of the loss cease to exist, the value is recovered, which cannot exceed the value that the asset would have had, net of depreciation without previous losses in value.

(d) Cancellation criteria

A tangible asset is eliminated from the balance sheet upon disposal, or when the asset is permanently withdrawn from use and no future economic benefits are expected from its disposal. Capital gains and losses deriving from the disposal or withdrawal of tangible assets are determined as the difference between the net sale price and the book value of the asset and are recorded in the income statement on the same date on which they are eliminated from the accounts.

7 – Intangible assets

(a) Classification criteria

IAS 38 defines intangible assets as non-monetary assets, without physical consistency, but identifiable anyway, used in the performance of long-term business activities. The characteristics necessary to meet the definition of intangible assets are:

- being identifiable;
- having full control of the resource;
- existence of future economic benefits.
- In the absence of one of the above characteristics, the expense to acquire or generate the same resource internally is recognised as a cost in the financial year in which it was incurred. Intangible assets include software with long-term use and goodwill with start-up costs. Goodwill is classified in intangible assets. It represents the positive difference between the purchase cost and the fair value of the assets and liabilities acquired as part of the combination transactions.The other intangible assets are recorded as such if they are individually identifiable and originate in legal and contractual rights.

(b) Registration criteria

Intangible assets are recorded at purchase cost including any accessory charges and subsequent costs incurred to increase their initial economic functions.

(c) Valuation criteria

Intangible assets with a limited duration are valued according to the cost principle, net of amortisation and depreciation as governed by IAS 38.
At each balance sheet date or infra-annual report, in the presence of situations showing the existence of lasting impairments, the compilers proceed to estimate the recoverable value of the asset entered on the income statement under item 210 "net value adjustments and/or write-ups on intangible assets", calculating the difference between the carry-forward amount of the asset and the recoverable
value. Intangible assets with an indefinite useful life, such as goodwill, are not amortised, but periodically subjected to the so-called impairment test. These losses in value can no longer be restored in subsequent years.

(d) Cancellation criteria

Intangible assets are derecognised as a result of disposals or when they have fully exhausted their economic functions and no future economic benefits are expected.

9 – Current and Deferred Taxes

a) Recognition

Income tax charges comprise current and deferred tax. Prepaid tax assets are recognized to the extent that it is probable that future taxable income will be available against which such assets can be utilized. Deferred taxes are recognized in all cases in which the relevant liability is likely to arise.

b) Classification

Prepaid and deferred taxes are recorded in the Balance Sheet as open balances and are not offset; the former are recorded under Tax Assets, the latter under Tax Liabilities.

c) Valuation

When the results of transactions are recorded under Shareholders' Equity directly, taxes are recorded under Shareholders' Equity too. Assets and liabilities representing prepaid and deferred taxes respectively are periodically reviewed to take account of any changes in regulations, tax rates or the likelihood that a tax benefit will no longer be realized.

d) Recognition of Gains and Losses

Income tax is recorded in the Income Statement by the same method used to record revenues and costs, except – as mentioned – those items debited or credited directly to Shareholders' Equity. Income tax for the year is calculated on the taxable result for the year, using the tax rates applying at year-end and any adjustments for taxes payable on previous years' income. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply when the assets are cashed in or the liabilities are settled, based on the rates applying at the Balance Sheet date. Deferred and prepaid income tax is calculated based on the temporary differences between assets and liabilities recorded in the Balance Sheet and the corresponding values recognized for tax purposes.

10 – Provisions for Risks and Charges

a) Registration and classification criteria

Provisions for risks and charges are recognised in the income statement and recorded on the liabilities side of the balance sheet if these conditions are met:

- there is a present obligation (legal or implicit) deriving from a past event;
- the disbursement of financial resources for the fulfilment of the obligation is deemed probable;
- a reliable estimate can be made of the probable future disbursement.

Provisions are recorded at the value representing the best estimate of the amount required to settle the obligation, or to transfer it to third parties at the end of the period.
When the financial effect related to the passage of time is significant and thepayment dates of the obligations can be reliably estimated, the provision is subject to discounting at current market rates at the balance sheet date.

b) Evaluation and recognition criteria of income components

The amount recognised as a provision represents the best estimate of the expenditure required to fulfil the obligation existing at the balance sheet date and reflects risks and uncertainties that inevitably characterise many facts and circumstances. The amount of the provision is represented by the current value of the expenses that are supposed to be necessary to settle the obligation where the effect of the current value is a relevant aspect. Future events that may affect the amount required to settle the obligation are only taken into account if there is sufficient objective evidence that they will occur.

Allocations to the Provisions for Risks and Charges include the risk deriving from any tax dispute. The Funds for Risks and Charges also include:

- provisions relating to commitments and financial guarantees issued subject to the impairment rules of IFRS 9;
- the charges relating to the defined-benefit pension funds pursuant to the provisions of IAS 19.

c) Cancellation policy

Provisions are used only for the charges for which they were originally registered. If it is no longer deemed probable that the fulfilment of the obligation will require the use of resources, the provision is reversed, by re-allocation to the income statement.

11 – Financial liabilities valued at amortised cost

(a) Classification criteria

The liabilities included here are due to banks, debts to customers and outstanding securities; they are made up of the various financial instruments through which the Bank and its subsidiaries realise interbank funding with customers and deposits made with outstanding debt securities – net, therefore, of any repurchased amounts.
Interest expense is recorded in the income statement under item 20 "Interest expense and similar charges".

(b) Registration criteria

The liabilities in question are recorded upon receipt of the sums collected or, for debt securities, at issue or at the time of a new relocation, or cancelled, even in the case of repurchase, on the basis of the "regulation date", and cannot be transferred to the trading book. Initial recognition is based on fair value, normally equal to the amount collected or the issue price, adjusted for any additional costs and revenues directly attributable to the various funding or issue transactions. Internaladministrative costs are excluded. The fair value of any financial liabilities issued at less than market conditions is subject to a specific estimate and the difference with respect to the market value is recorded directly in the income statement. The structured securities are separated in their constitutive elements that are separately recorded, when the derivative components implicit in them are of an economic nature and of different risks from those of the underlying securities and are configurable as autonomous derivative instruments.

(c) Valuation criteria

After initial recognition, the valuations of financial liabilities are based on the amortised cost principle with the effective interest rate method, with the exception of short-term liabilities where the time factor is negligible, which remain recorded for the amount collected; if costs are charged, they are allocated to the income statement in a linear manner for the contractual duration of the liabilities.

(d) Cancellation criteria

Financial liabilities are derecognised from the financial statements when they have expired or have become extinct. The cancellation also occurs at the time of the repurchase of previously issued securities; the difference between the book value of the liabilities and the amount paid to purchase, is shown on the income statement. The re-placement on the market of own securities subsequent to their repurchase is considered as a new issue with recognition of the new placement price, with no effect on the income statement.

12 - Financial trading liabilities

(a) Classification criteria

This item includes derivative trading instruments with negative fair value, including embedded derivatives present in structured and financial instruments that are separate from them. Also included are any "technical overdrafts" originating from securities trading activities.

(b) Registration criteria

Derivative instruments are recognised in relation to the "contracting date" while transactions in securities are accounted for on the "settlement date". Financial liabilities held for trading are initially recorded at fair value, i.e. at the purchase price.

(c) Valuation criteria

After initial recognition, financial liabilities held for trading are measured at fair value, determined according to the methods described in the paragraph relating to "financial assets held for trading". The financial instruments for which it is not possible to determine the fair value in a reliable manner as indicated above, are maintained at cost. The results of the valuations and those of the trading are shown on the income statement under item 80 "net result of trading activity".

(d) Cancellation criteria

Financial liabilities held for trading are derecognised when the contractual rights on the financial flows deriving from the liabilities expire, or when the financial instruments are sold.

13 – FOREX TRANSACTIONS

(a) Recognition

When initially recognized, Forex transactions are recorded in euros (the accounting currency) by applying the exchange rate in effect on the date of the transaction.

(b) Recognition of Gains and Losses

At year end positions denominated in foreign currency are assessed as follows:

- monetary positions are converted at the exchange rate in effect at the end of the financial year;

- non-monetary positions valued at historical cost are converted at the exchange rate in effect on the date of the transaction;
- non-monetary positions assessed at fair value are converted at the exchange rate in effect at the end of the financial year.

Exchange rate differences arising from the settlement of monetary positions or from the conversion of monetary positions at rates different from those used initially for such positions (or for the conversion of the previous balance sheet) are recorded in the Income Statement relating to the period in which they arose.

When a gain or loss relating to a non-monetary position is recorded under Shareholders' Equity, the exchange rate difference for that item is also recorded under Shareholders' Equity. On the other hand, when a gain or loss is recorded in the Income Statement, the related exchange rate difference is recorded there too.

14 – Other information

a) Fair Value

Fair value is defined as the amount for which an asset may be traded, or a liability settled, in an unconstrained transaction between informed and mutually independent parties. The methods adopted by the Bank for quantifying fair value may be grouped into three broad categories or levels:

1. Level 1 – prices listed on active markets (mark-to-market), where valuation is based on the price commanded by the same instrument, unmodified and unrecombined, as listed on an active market. A market is considered active when its listed prices reflect normal market conditions, are regularly and readily available through stock exchanges, listing services and/or brokers, and represent actual and regular market operations.

2. Level 2 – methods based on observable market parameters, such as market prices for similar instruments, or the fact that all the instrument's significant factors, including credit and liquidity spreads, can be derived from observable market data. Methods in this group offer little scope for discretion since all parameters used, be it for the same or similar instruments, are ultimately drawn from the market, hence they allow for the replication of quotes from active markets.

3. Level 3 – methods based on unobservable market parameters (mark-to-model). These are widely accepted and used, and include calculating the present value of future cash flows and estimating volatilities; models are revised during their development and periodically thereafter to ensure maximum and durable consistency. As methods in this group rely heavily on significant inputs from sources other than the market, the Bank's management will have to make estimates and assumptions.

The criteria used to determine the fair value of securities are as follows;

a) <u>For securities traded on active markets, fair value is represented by:</u>

- the official price on the last trading day of the relevant period if the instrument is listed on the Italian stock exchange;
- the official price (or its equivalent) on the last day of the relevant period if it is listed on a foreign stock exchange.

b) For securities not traded on active markets, fair value is represented by (in descending order of preference):

- the reference price from recent trades;
- price indications, if available and reliable, from sources such as ICMA, Bloomberg or Reuters; the price obtained by applying valuation methods generally accepted in the
- financial community, e.g.:
  - for debt instruments, the present value of future cash flows, based on the yield rates applying at the end of the period for an equivalent residual life and taking into account any counterparty risk and/or liquidity risk;
  - for equities (if the amount is significant), the price obtained through independent expert assessments if available, or else a price that is equal to the fraction of shareholders' equity held as recognized in the company's latest approved accounts;

- the price supplied by the issuer, suitably adjusted for counterparty risk and/or liquidity risk;
- the cost, adjusted to take into account any significant impairment if fair value cannot be determined reliably by any of the previously mentioned criteria.

c) For derivatives, fair value is represented by:

- the quoted price on the last trading day of the relevant period if the instrument is traded on a regulated market;
- if the instrument is an over-the-counter (OTC) derivative, its market value on the relevant reference date as determined for the type of derivative being valued, i.e.:

  - interest rate contracts: the "replacement cost" obtained by calculating the present value of balances on the scheduled settlement dates between cash flows generated at contract rates and expected cash flows generated at the (objectively determined) market rates current at the end of the period for an equivalent residual life;

  - Forex derivatives: the forward Forex rates applying at the reference date for maturities equivalent to those of the transactions being valued;

  - Derivatives on securities, commodities and precious metals: the forward prices applying at the reference date for maturities equivalent to those of the underlying assets.

15 - Recognition of Revenues and Costs

Revenues are recognized when they are received or, in any event, when it is likely that future benefits will be received that can be quantified in a reliable manner. In particular:

- dividends are recognized in the Income Statement when their distribution is formally approved;
- revenue from dealings in financial instruments held for trading (consisting in the difference

between the transaction price and the instrument's fair value) is recorded in the Income Statement when the trades are recognized if fair value can be determined by reference to parameters or recent transactions observable in the same market as that in which the instruments were traded;

- revenue from financial instruments for which the above assessment is not possible is recorded in the Income Statement over the duration of the transaction.
- costs are recognized in the Income Statement in the same year as the related revenues. If the link between costs and revenues can be made in a general and indirect manner, costs are recorded over a number of years using rational and systematic procedures. Costs that cannot be associated with revenues are recorded in the Income Statement immediately.

16 - Staff Severance Fund

Registration and classification

The Staff Severance Fund (TFR) is recognized by the actuarial method prescribed in IAS 19 for staff defined-benefit plans. Therefore, the liability recorded in the Balance Sheet is subject to actuarial estimates that also take into account, among other variables, future developments in the employment relationship. The liability in the Balance Sheet represents the present value of the obligation, adjusted for any unrecognized actuarial gains and losses. Application IAS 19R starting 1 January 2013 implied the inclusion in Shareholders' Equity Valuation Reserves of the actuarial losses on defined benefit plans previously recognized in the Income Statement; all other economic components of the severance pay flows are recognized in the Income Statement in the line item Administrative Expenses/Personnel.

A.3 - DETAILS OF TRANSFERS BETWEEN FINANCIAL ASSET PORTFOLIOS

A.3.1 Financial assets reclassified: change of business model, balance sheet value and active interest

Type of financial instrument (1)	Portfolio of origin (2)	Destination portfolio (3)	Date of reclassification (4)	Balance sheet value reclassified (5)	Active interest reported during the year (pre-tax) (6)
DEBT SECURITIES	**HTCS**	**HTC**	**01.01.2019**	**381,108,251**	**n.a.**

A.3.2 Financial assets reclassified: change of business model, fair value and effects on overall profitability

Type of financial instrument (1)	Portfolio of origin (2)	Destination portfolio (3)	Fai r Value 31 Dec 2018 (4)	Capi tal gains / los ses in the absence of trans fer (pre-tax)	
				31 Dec 2018 (5)	31 Dec 2017 (6)
DEBT SECURITIES	**HTCS**	**HTC**	**372.198.900**	**(9.039.970)**	**(38,340,573)**

A.3.3. Reclassified financial assets: change of business model and effective interest rate

As described in detail in the 2018 financial statements (see explanatory notes), the Board of Directors in December 2018 approved the strategic reorientation of finance and the new version of the business model. The accounting effects of this decision, whose nature is exclusively patrimonial, took place starting from the month of January 2019.

In general, the accounting standard IFRS 9 “Financial instruments” is a business model describing the management method for groups of financial assets (portfolios) in order to achieve defined strategic objectives, or the collection of contractual cash flows, the achievement of profits through the sale or a combination of these, which in relation to the contractual characteristics of the cash flows of the financial assets determines their measurement at the amortized cost, at the fair value recorded in the income statement or at the fair value recorded for net assets.

When IFRS 9 was first applied (FTA - First Time Adoption), in order to allocate the financial instruments in the business models, only the Held-to-Collect (or HTC) business model was defined for the loan portfolio, reflecting the operating method that Banca UBAE has always followed in managing loans granted to banks, corporate entities and retail customers, while proprietary securities portfolio.

In light of the conclusions reached, Banca UBAE reiterated the need to maintain a particularly prudent risk profile in managing the proprietary securities portfolio, and therefore chose a management strategy aimed at favouring stability in the collection of financial flows in the medium-long term for the securities portfolio, compared to income from trading which created a potential risk of reducing capital endowments in supervisory terms.

With the new business model, therefore, the HTC portfolio has become a prevalent category for investments, while the HTC&S portfolio, which has shown a strong sensitivity to the risk of market fluctuations, becomes the recipient of short-term investments with a residual connotation compared to the past. The portfolio intended for trading remains marginal in relation to the Bank's core business.

The financial instruments subject to reclassification from HTC&S to HTC consist of Italian sovereign debt securities, for a total nominal value of 381 million euros.

The information relating to the effective interest rate determined on the date of reclassification (referred to in IFRS 7, paragraph 12C, letter a) is not relevant since it is not required for the type of reclassification that has been made.

A.4 – FAIR VALUE DETAILS

Qualitative information

A.4.1 Fair value levels 2 and 3: assessment and input techniques used

Starting 1 January 2013 the Bank has applied the new IFRS 13 accounting principle that governs the measuring of fair value and relative disclosure. An assessment of the classification criteria and measurement method adopted for fair value revealed that these were essentially in line with the principle concerned. Techniques, valuation processes for financial instruments and criteria for determining fair value used by the Bank are illustrated in the Notes – Part A, point 17 "Other aspects".

A.4.2 Processes for and sensitivity of assessments

Based on the provisions of the new international IFRS 13 accounting principle the Bank has carried out a sensitivity analysis in order to determine the potential impact on valuation of instruments classified in fair value level 3 as a result of possible variations in the corresponding non-observable market parameters. This check did not reveal any significant impact of the situation presented.

A.4.3 Fair value hierarchy

With the introduction of IFRS 13 the aim was to include the rules for measuring fair value previously contained in several accounting principles in a single principle. Fair value is defined as the price obtained for the sale of an asset or as the amount paid when transferring a liability in a normal transaction between market operators at the date of valuation. To determine the fair value of a financial instrument IFRS 13 draws on the hierarchical concept of measurement criteria used that was previously introduced by an amendment to IFRS 7. This stated that it was mandatory to classify valuations based on a hierarchy of levels reflecting the significance of inputs used to evaluate financial instruments. The aim of this classification is to establish a hierarchy in terms of reliability of fair value based on the degree of subjectivity applied, giving precedence to observable parameters in the market that reflect the assumptions participants in the market would use when pricing the asset/liability concerned.

A.4.4 Other information

The Bank does not utilize the exception concerning the offsetting of groups of financial assets and liabilities as indicated in IFRS 13, paragraph 48.

Qualitative information

A.4.5 Fair value hierarchy

A.4.5.1 Assets and liabilities assessed at fair value on a comparable basis: breakdown by fair value levels

		31.12.2019			31.12.2018		
		L1	L2	L3	L1	L2	L3
1	1. FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT	9,080	1,188		8,980	6,197	
	A) FINANCIAL ASSETS HELD FOR TRADING	9,080	1,118		8,980	6,197	
	B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE						
	C) OTHER FINANCIAL ASSETS WITH MANDATORY VALUATION AT FAIR VALUE						
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	990	3,409,	3,867	344,630	3,061	4,254
3	DERIVATIVES FOR HEDGING						
4	TANGIBLE ASSETS						
5	INTANGIBLE ASSETS						
	TOTAL	10,070	4,597	3,867	353,610	9,258	4,254
1	FINANCIAL LIABILITIES HELD FOR TRADING		2,435			3,601	
2	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE						
3	DERIVATIVES FOR HEDGING						
	TOTAL		2,435			3,601	

Legenda:
L1= Level 1 L2= Level 2 L3= Level 3

No transfers of assets and liabilities between level 1, level 2 and level 3 have been made during the year.

A.4.5.2 Annual changes in assets held at fair value on a recurring basis (level 3)

		TOTAL	OF WHICH: A) FINANCIAL ASSETS HELD FOR TRADING	OF WHICH: B) FINANCIAL ASSETS DESIGNATED AT FAIR VALUE	OF WHICH: C) OTHER FINANCIAL ASSETS WITH MANDATORY VALUATION AT FAIR VALUE	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	DERIVATIVES FOR HEDGING	TANGIBLE ASSETS	INTANGIBLE ASSETS
1	**OPENING BALANCE**					**4,254**			
2	**INCREASES**					**491**			
2.1	PURCHASES								
2.2	PROFITS								
	2.2.1 INCOME STATEMENT								
	OF WHICH: CAPITAL GAINS								
	2.2.2 NET ASSETS								
2.3	TRANSFERS FROM OTHER LEVELS								
2.4	OTHER VARIATIONS WITH INCREASE					491			
3	**DECREASES**					**878**			
3.1	SALES								
3.2	REFUNDS								
3.3	LOSSES								
	3.3.1 INCOME STATEMENT								
	OF WHICH: LOSSES								
	3.3.2 NET ASSETS								
3.4	TRANSFERS TO OTHER LEVELS								
3.5	OTHER VARIATIONS WITH DECREASE					878			
4	**CLOSING BALANCE**					**3,867**			

A.4.5.4 Assets and liabilities not assessed at fair value or assessed at fair value on a non-comparable basis: breakdown by fair value levels

	ASSETS/LIABILITIES NOT MEASURED AT FAIR VALUE OR MEASURED AT FAIR VALUE ON A NON-RECURRING BASIS	31.12.2019				31.12.2018			
		VB	FV			VB	FV		
			L 1	L 2	L 3		L 1	L 2	L 3
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	1,736,047	405,334	260,779	1,070,121	1,504,146	31,734	222,151	1,250,326
2	TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES								
3	NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE								
	TOTAL	1,736,047	405,334	260,779	1,070,121	1,504,146	31,734	222,151	1,250,326
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	1,835,175			1,833,861	2,355,319			2,355,213
2	LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE								
	TOTAL	1,835,175			1,833,861	2,355,319			2,355,213

Legenda:
L1= Livello 1
L2= Livello 2
L3= Livello 3

VB= Valore di bilancio
FV= Fair value

Below are the types of asset/liability not measured at fair value:
Financial assets held to maturity = They are recorded at amortized cost and comprise securities listed on an active market. The fair value is classified at level 1 and level 2.
Loans and advances to banks and customers =They are recorded at nominal value. The amount shown in the Financial Statements takes into account the write-down following a risk of default and characteristics of guarantees.
Payables to banks and customers = They are recorded at nominal value, which normally equates to the amount the Bank received originally. It is reasonable to assume that this is the fair value inasmuch as the Bank is able to cover its payables thanks to the high level of equity.

The Bank has never valued assets and liabilities at fair value on a non-recurrent basis.

A.5 INFORMATION ON THE "DAY ONE PROFIT/LOSS"

During the year in question the Bank has not recorded positive/negative economic elements deriving from the initial measurement at fair value of financial instruments.

PART B - INFORMATION ON THE BALANCE SHEET

ASSETS

SECTION 1 – CASH AND CASH EQUIVALENTS - ITEM 10

1.1 Cash and cash equivalents: breakdown

ITEMS/ VALUE TOTAL	31.12.2019	31.12.2018
A) CASH	559	765
B) FREE DEPOSITS WITH CENTRAL BANKS	298,796	588,546
TOTAL	299,355	589,311

The item b) contains an overnight deposit made at the Banca d'Italia of EUR 298 million.

SECTION 2 – FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT – ITEM 20

2.1 Financial assets held for trading: breakdown by type

ITEMS/ VALUES		31.12.2019			31.12.2018		
		L1	L2	L3	L1	L2	L3
A	**NON-DERIVATIVE ASSETS**						
1	DEBT SECURITIES	9,080			8,980		
	1.1 STRUCTURED SECURITIES	3,475					
	1.2 OTHER DEBT SECURITIES	5,605			8,980		
2	EQUITY SECURITIES						
3	HOLDINGS IN UCI						
4	LOANS						
	4.1 REPO						
	4.2 OTHER DEBT SECURITIES						
TOTAL (A)		9,080			8,980		
B	**DERIVATIVES:**						
1	FINANCIAL DERIVATIVES		1,188			6,197	
	1.1 FOR TRADING		1,188			6,197	
	1.2 CONNECTED AT FAIR VALUE OPTION						
	1.3 OTHER						
2	CREDIT DERIVATIVES						
	2.1 FOR TRADING						
	2.2 CONNECTED AT FAIR VALUE OPTION						
	2.3 OTHER						
TOTAL (B)			1,188			6,197	
TOTAL (A+B)		9,080	1,188		8,980	6,197	

Legend:
L1= Level 1 L2= Level 2 L3= Level 3 UCI= Undertakings in collective investments

2.2 Financial assets held for trading: breakdown by class of debtor/issuer

ITEMS/VALUES		31.12.2019	31.12.2018
A	**ASSETS FOR CASH**		
1	**DEBT SECURITIES**	**9,080**	**8,980**
A)	CENTRAL BANKS		
B)	PUBLIC ADMINISTRATIONS		
C)	BANKS	4,491	870
D)	OTHER FINANCIAL COMPANIES	1,144	
	OF WHICH: INSURANCE FIRMS		
E)	NON-FINANCIAL COMPANIES	3,445	8,110
2	**CAPITAL SECURITIES**		
A)	BANKS		
B)	OTHER FINANCIAL COMPANIES		
	OF WHICH: INSURANCE FIRMS		
C)	NON-FINANCIAL COMPANIES		
D)	OTHER ISSUERS		
3	**O.I.C.R. SHARES (FOR COLLECTIVE INVESTMENT)**		
4	**FINANCINGS**		
A)	CENTRAL BANKS		
B)	PUBLIC ADMINISTRATIONS		
C)	BANKS		
D)	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS		
E)	NON-FINANCIAL COMPANIES		
F)	FAMILIES		
TOTALE (A)		9,080	8,980
B	**DERIVATIVE INSTRUMENTS**	**1,187**	**6,197**
A)	CENTRAL COUNTERPARTIES		
B)	OTHERS	1,187	6,197
TOTAL (B)		1,187	6,197
TOTAL (A+B)		10,267	15,177

SECTION 3 – FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY – ITEM 30

3.1 Financial assets measured at fair value with an impact on total profitability: product composition

ITEMS/VALUES		31.12.2019			31.12.2018		
		L1	L2	L3	L1	L2	L3
1	DEBT SECURITIES	**990**	**3,409**	**1,269**	**344,630**	**3,061**	**1,657**
	1.1 STRUCTURED SECURITIES						
	1.2 OTHER DEBT SECURITIES	990	3,409	1,269	344,630	3,061	1,657
2	CAPITAL SECURITIES			**2,598**			**2,598**
3	FINANCING						
TOTALE		990	3,409	3,867	344,630	3,061	4,255

3.2 Financial assets measured at fair value with an impact on total profitability: composition by debtors/issuers

ITEMS/VALUES		31.12.2019	31.12.2018
1 DEBT SECURITIES		**5,668**	**349,348**
A)	CENTRAL BANKS		
B)	ALTRI ENTI PUBLIC ADMINISTRATIONS	3,409	346,146
C)	BANKS		
D)	OTHER FINANCIAL COMPANIES		
	OF WHICH: INSURANCE FIRMS		
E)	NON-FINANCIAL COMPANIES	2,259	3,202
2 CAPITAL SECURITIES		**2,598**	**2,597**
A)	BANKS		
B)	OTHER ISSUERS	2,598	2,597
	- OTHER FINANCIAL FIRMS		
	- INSURANCE FIRMS		
	- NON-FINANCIAL COMPANIES	2,598	2,597
	- OTHERS		
4 FINANCINGS			
A)	CENTRAL BANKS		
B)	PUBLIC ADMINISTRATIONS		
C)	BANKS		
D)	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS		
E)	NON-FINANCIAL COMPANIES		
F)	FAMILIES		
TOTAL		8,266	351,945

3.3 Financial assets measured at fair value with an impact on total profitability: gross value and total value adjustments

	GROSS VALUE				TOTAL VALUE ADJUSTEMENTS			
	FIRST STAGE	OF WHICH INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL PARTIAL WRITE-OFFS (*)
DEBT SECURITIES FINANCINGS			3,576	5,258		(167)	(2,999)	
TOTAL (31.12.19)			3,576	5,258		(167)	(2,999)	
TOTAL (31.12.18)	343,816	343,816	3,271	6,371	(731)	(210)	(3,169)	
OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED								

The item "debt securities" in the first stage consists of Italian government bonds for a nominal value of 3,7 million. The second stage consists of a security issued by a foreign institutional counterparty for a nominal value of 3.7 million euros. The third stage consists of securities issued by companies classified as probable default for a nominal value of 4.9 million euros.

SECTION 4 – FINANCIAL ASSETS AT AMORTISED COST – ITEM 40

4.1 Financial assets measured at amortised cost: product composition of loans to banks

	TYPES OF OPERATIONS/ VALUES	31.12.2019						31.12.2018					
		BALANCE SHEET VALUE			FAIR VALUE			BALANCE SHEET VALUE			FAIR VALUE		
		1ST & 2ND STAGES	3RD STAGE	OF WHICH: IMPAIRED, L1 L2 L3 ACQUIRED/ ORIGINATED	L1	L2	L3	1ST & 2ND STAGES	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	L1	L2	L3
A	**LOANS TO CENTRAL BANKS**							**802**					**802**
1	DEPOSITS AT MATURITY												
2	MANDATORY RESERVE												
3	REPURCHASE AGREEMENTS												
4	OTHER							**802**					**802**
B	**LOANS TO BANKS**	**779,263**	**728**			**38,822**	**741,169**	**1,013,084**	**2,871**			**32,052**	**1,015,955**
1	FINANCINGS	**741,329**	**728**				**742,057**	**981,391**	**2,871**				**984,262**
	1.1 CURRENT ACCOUNTS AND DEPOSITS	**128,133**	**362**				**128,495**	**266,729**					**266,729**
	1.2. DEPOSITS AT MATURITY	**246,070**					**128,495**	**283,403**					**283,403**
	1.3. OTHER FINANCINGS:							**431,259**					**431,259**
	- ACTIVE REPURCHASE AGREE'TS												
	- FINANCIAL LEASING												
	-OTHER	**367,126**	**366**				**367,492**	**431,259**	**340**				**431,599**
2	DEBT SECURITIES	**37,934**				**38,822**		**31,693**				**32,052**	**31,693**
	2.1 STRUCTURED SECURITIES												
	2.2 OTHER DEBT SECURITIES	**37,934**				**38,822**		**31,693**				**32,052**	**31,693**
TOTAL		779,263	728			38,822		1,013,886	2,871			32,052	1,181,284

Legend:
L1= Level 1 L2= Level 2 L3= Level 3

4.2 Financial assets measured at amortised cost: product composition of loans to customers

	TYPES OF OPERATIONS/ VALUES	31.12.2019						31.12.2018					
		BALANCE SHEET VALUE			FAIR VALUE			BALANCE SHEET VALUE			FAIR VALUE		
		FIRST AND SECOND STAGE	THIRD STAGE	OF WHICH IMPAIRED, ACQUIRED/ ORIGINED	L1	L2	L3	1ST & 2ND STAGES	3RD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	L1	L2	L3
	FINANCINGS	**293,847**	**34,216**				**328,063**	**237,606**	**28,457**				**266,063**
1	CURRENT ACCOUNTS	767	12,056				12,823	825	8,032				8,857
2	ACTIVE REPURCHASE AGREEMENTS												
3	MORTGAGES	**9,791**	**110**				**9,901**	**9,432**	**108**				**9,540**
4	CREDIT CARDS, PERSONAL LOANS AND EMPLOYEE	**2,860**					**2,860**	**2,884**					**2,884**
5	FINANCIAL LEASING												
6	FACTORING	**49,356**					**49,356**	**35,213**					**35,213**
7	OTHER FINANCINGS	**231,073**	**22,050**				**222,127**	**189,252**	**20,317**				**209,569**
	DEBT SECURITIES	**627,992**		**405,334**		**221,957**		222,127			**31,734**	**190,098**	
1	STRUCTURED SECURITIES												
2	OTHER DEBT SECURITIES	**627,992**		**405,334**		**221,957**		**222,127**			**31,734**	**190,098**	
TOTAL		921,839	34,216	405,334		221,957	328,063	459,733	28,457		31,734	190,098	266,063

Legend:
L1= Level 1 L2= Level 2 L3= Level 3

4.4 Financial assets measured at amortised cost: composition by debtors/issuers of loans to customers

	TYPES OF OPERATIONS/ VALUES	31.12.2019			31.12.2018		
		FIRST AND SECOND STAGES	THIRD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED	FIRST AND SECOND STAGES	THIRD STAGE	OF WHICH: IMPAIRED, ACQUIRED/ ORIGINATED
1	**DEBT SECURITIES**	627,992			222,127		
A	PUBLIC ADMINISTRATIONS	627,992			222,127		
B	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS						
C	NON-FINANCIAL COMPANIES						
2	**FINANCINGS**	293,847	34,216		237,606	28,457	
A	PUBLIC ADMINISTRATIONS		9,993		14,273		
B	OTHER FINANCIAL COMPANIES OF WHICH: INSURANCE FIRMS	1,421			460		
C	NON-FINANCIAL COMPANIES	278,949	24,111		209,670	28,346	
D	FAMILIES	13,477	112		13,203	111	
TOTAL		921,839	34,216		459,733	28,457	

4.4 Financial assets measured at amortised cost: composition by debtors/issuers of loans to customers

	GROSS VALUE				TOTAL VALUE ADJUSTEMENTS			TOTAL PARTIAL WRITE-OFFS (*)
	FIRST STAGES	OF WHICH INSTRUMENTS WITH LOW CREDIT RISK	SECOND STAGE	THIRD STAGE	FIRST STAGES	SECOND STAGE	THIRD STAGE	
DEBT SECURITIES FINANCINGS	618,398	618,398	65,042		(1,336)	(16,178)		
FINANCINGS	994,143		46,196	122,008	(4,925)	(238)	(87,063)	279
TOTAL	1,612,541	618,398	111,238	122,008	(6,261)	(16,416)	(87,063)	279
TOTAL (31.12.18)	1,368,709	220,652	117,950	105,565	(12,047)	(1,794)	(74,237)	3,344
OF WHICH: IMPAIRED, ACQUIRED/ORIGINATED								

SECTION 5 – HEDGING DERIVATIVES - ITEM 50

No data to report.

SECTION 6 - ADJUSTMENTS TO FINANCIAL ASSETS SUBJECT TO MACRO-HEDGING ITEM 60

No data to report.

SECTION 7 – EQUITY INVESTMENTS – ITEM 70

No data to report.

SECTION 8 – TANGIBLE FIXED ASSETS - ITEM 80

8.1 Tangible fixed assets held for operational use: breakdown of assets carried at cost

	ASSETS/VALUE	31.12.2019	31.12.2018
1	**PROPRIETARY ASSETS**	22.483	22.797
A	LAND	8.187	8.187
	BUILDINGS	13.410	13.940
	FURNISHINGS	112	135
	ELECTRIC/ELECTRONIC EQUIPMENT	2	2
	OTHER ITEMS	772	533
B	**RIGHT OF USE ACQUIRED THROUGH LEASING**	287	
	LAND		
	BUILDINGS	252	
	FURNISHINGS		
	ELECTRIC/ELECTRONIC EQUIPMENT		
	OTHER ITEMS	35	
	TOTAL	22.770	22.797
OF WHICH: OBTAINED THROUGH ENFORCEMENT OF GUARANTEES RECEIVED			

The Bank owns its Rome headquarters building and an apartment in Milan where the branch office is located. It also owns a property in Rome used for the Bank’s archives.

8.6 Tangible fixed assets held for operational use: Yearly variations

			LAND	BUILDINGS	FURNISHINGS	ELECTRONIC PLANT	OTHER	TOTAL
A	**GROSS OPENING BALANCE**		**8,187**	**23,123**	**1,807**	**2,377**	**2,985**	**38,479**
	A1	REDUCTION OF TOTAL NET VALUES		9,183	1,672	2,375	2,452	15,682
	A2	NET OPENING BALANCE	8,187	13,940	135	2	533	22,797
B	**NCREASES**			**555**			**489**	**1,044**
	B1	PURCHASES		179			433	612
	B2	EXPENSES FOR CAPITALISED IMPROVEMENTS						
	B3	WRITE-BACKS						
	B4	POSITIVE VARIATIONS OF FAIR VALUE ATTRIBUTED TO:						
		A) NET ASSETS						
		B) INCOME STATEMENT						
	B5	POSITIVE DIFFERENCES OF EXCHANGE RATES						
	B6	TRANSFERS FROM PROPERTIES HELD FOR INVESTMENT PURPOSES						
	B7	OTHER VARIATIONS		376			56	
C	**DECREASES**			**833**	**21**	**1**	**216**	**1,071**
	C1	SALES					8	
	C2	AMORTISATIONS		833	21	1	208	
	C3	VALUE ADJUSTMENTS FROM DETERIORATION ATTRIBUTED TO :						
		A) NET ASSETS						
		B) INCOME STATEMENT						
	C4	NEGATIVE VARIATIONS OF FAIR VALUE ATTRIBUTED TO:						
		A) NET ASSETS						
		B) INCOME STATEMENT						
	C5	NEGATIVE DIFFERENCES OF XCHANGE RATES						
	C6	TRANSFERS TO:						
		A) TANGIBLE ASSETS HELD FOR INVESTMENT PURPOSES						
		B) NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE						
	C7	OTHER VARIATIONS						
D	**NET CLOSING BALANCE**		**8,187**	**13,662**	**114**	**1**	**806**	**22,770**
	D1	REDUCTION OF TOTAL NET VALUES		10,016	1,693	2,376	2,668	16,753
	D2	GROSS CLOSING BALANCE	**8,187**	23,678	1,807	2,377	,3,474	39,523
E	**VALUATION AT COST**							

SECTION 9 – INTANGIBLE FIXED ASSETS – ITEM 90

9.1 Intangible fixed assets: breakdown by type

			31.12.2019		31.12.2018	
			LIMITED LIFE	UNLIMITED LIFE	LIMITED LIFE	UNLIMITED LIFE
A1	GOODWILL					
A2	OTHER INTANGIBLE ASSETS		127		357	
	A2.1	ASSETS VALUED AT COST	127		357	
		A) AINTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS				
	A2.2	ASSETS ASSESSED AT FAIR VALUE	127		357	
		A) INTANGIBLE ASSETS DEVELOPED IN-HOUSE				
		B) OTHER ASSETS				
TOTAL			127		357	

9.2 Intangible fixed assets: Yearly variations

			GOODWILL	OTHER INTANGIBLE ASSETS: GENERATED INTERNALLY		OTHER INTANGIBLE ASSETS: VARIOUS		TOTAL
				DEF	INDEF	DEF	INDEF	
A	**OPENING BALANCE**			**357**				**357**
	A1	REDUCTION OF TOTAL NET VALUE						
	A2	NET OPENING BALANCE		357				357
B	**INCREASES**			**91**				**91**
	B1	PURCHASES		91				91
	B2	INCREASE OF INTANGIBLE ASSETS INTERNALLY						
	B3	VALUE ADJUSTMENTS						
	B4	POSITIVE VARIATIONS OF FAIR ALUE:						
		- TO NET ASSETS						
		- TO INCOME STATEMENT						
	B5	POSITIVE DIFFERENCES IN EXCHANGE RATES						
	B6	OTHER VARIATIONS						
C	**DECREASES**			**321**				**321**
	C1	SALES						
	C2	VALUE ADJUSTMENTS		321				321
		- AMORTISATIONS		321				321
		- WRITE-DOWNS:						
		- NET ASSETS						
		- INCOME STATEMENT						
	C3	NEGATIVE VARIATIONS OF FAIR VALUE:						
		- TO NET ASSETS						
		- TO INCOME STATEMENT						
	C4	TRANSFERS TO NON-CURRENT ASSETS HELD FOR SALE						
	C5	NEGATIVE DIFFERENCES IN EXCHANGE RATES						
	C6	OTHER VARIATIONS						
D	**NET CLOSING BALANCE**			**127**				**127**
	D1	TOTAL NET VALUE ADJUSTMENTS						
E	**GROSS CLOSING BALANCE**			**127**				**127**
F	**VALUATION AT COST**			**127**				**127**

Legend
DEF= definite duration INDEF= indefinite duration

Other intangible assets as of 31 December 2019 are amortized in constant proportions for an estimated period of five years from the date of coming into force.

SECTION 10 – TAX ASSETS AND TAX LIABILITIES - ITEM 100 (ASSETS) AND ITEM 60 (LIABILITIES)

10.1 Pre-paid tax assets: breakdown

		31.12.2019	31.12.2018
TOTAL		8,019	20,862
INCOME STATEMENT		5,385	20,862
1	TAX LOSSES		5,385
2	LOAN LOSSES	4,253	4,253
3	OTHER	1,132	1,132
SHAREHOLDERS’ EQUITY		2,634	15,477
4	ATION RESERVES	2,634	15,477
5	OTHER		

10.2 Deferred Tax liabilities: breakdown

		31.12.2019	31.12.2018
TOTAL		521	
1	INCOME STATEMENT		
2	SHAREHOLDERS’ EQUITY	521	
	VALUATION RESERVES	521	
	OTHER		

10.3 Changes in prepaid tax assets: Contra-item in the income statement

				31.12.2019	31.12.2018
1	**OPENING BALANCE**			**5,385**	**5,385**
2	**INCREASES**				
	2.1	PRE-PAID TAX ASSETS RECORDED DURING THE YEAR			
		A) RELATING TO EARLIER YEARS			
		B) DUE TO CHANGES IN ACCOUNTING POLICIES			
		C) WRITE-BACKS			
		D) OTHER			
	2.2	NEW TAXES OR INCREASES IN TAX RATES			
	2.3	OTHER INCREASES			
3	**DECREASES**				
	3.1	PRE-PAID TAX ASSETS ANNULLED DURING THE YEAR			
		A) REVERSALS			
		B) WRITE-DOWNS FOR INTERVENING NON-RECOV.			
		C) DUE TO CHANGES IN ACCOUNTING POLICIES			
		D) OTHER			
	3.2	REDUCTIONS IN TAX RATES			
	3.3	OTHER DECREASES			
		A) TRANSFORMATION INTO TAX CREDITS AS PER LAW 214/2011			
		B) OTHER			
4	**CLOSING BALANCE**			**5,385**	**5,385**

10.5 Changes in prepaid tax assets: Contra-item in in shareholders' equity

			31.12.2019	31.12.2018
1	**INITIAL AMOUNT**		**15,477**	
2	**INCREASES**			**15,477**
	2.1	DEFERRED TAX ASSETS RECOGNISED DURING THE YEAR		
		A) RELATING TO PREVIOUS YEARS		
		B) DUE TO CHANGES IN ACCOUNTING CRITERIA		3,436
		C) OTHER		
	2.2	NEW TAXES OR INCREASES IN TAX RATES		
	2.3	OTHER INCREASES		12,041
3	**DECREASES**		12,844	
	3.1	DEFERRED TAX ASSETS CANCELLED DURING THE YEAR		
		A) REVERSALS		
		B) UNRECOVERABLE WRITE-OFFS		
		C) DUE TO CHANGES IN ACCOUNTING CRITERIA		
		D) OTHER	803	
	3.2	REDUCTION IN TAX RATES		
	3.3	OTHER DECREASES	12,041	
4	**FINAL AMOUNT**		**2,633**	**15,477**

10.6 Changes in deferred tax liabilities: Contra-item in shareholders' equity

			31.12.2019	31.12.2018
1	**INITIAL AMOUNT**			**389**
2	**INCREASES**			
	2.1	DEFERRED TAX ASSETS RECOGNISED DURING THE YEAR		
		A) RELATING TO PREVIOUS YEARS		
		B) DUE TO CHANGES IN ACCOUNTING CRITERIA		
		C) OTHER		
	2.2	NEW TAXES OR INCREASES IN TAX RATES		
	2.3	OTHER INCREASES		
3	**DECREASES**			
	3.1	DEFERRED TAX ASSETS CANCELLED DURING THE YEAR		
		A) REVERSALS		
		B) UNRECOVERABLE WRITE-OFFS		
		C) DUE TO CHANGES IN ACCOUNTING CRITERIA		
		D) OTHER		
	3.2	REDUCTION IN TAX RATES		
	3.3	OTHER DECREASES		
4	**FINAL AMOUNT**			**389**

SECTION 11 – NON-CURRENT ASSETS AND GROUPS OF ASSETS BEING DIVESTED AND ASSOCIATED LIABILITIES – ITEM 110 (ASSETS) AND ITEM 70 (LIABILITIES)

No data to report.

SECTION 12 – OTHER ASSETS – ITEM 120

12.1 Other assets: breakdown

		31.12.2019	31.12.2018
1	GOLD, SILVER AND PRECIOUS METALS		
2	ACCRUED INCOME		
3	IMPROVEMENTS TO ASSETS PERTAINING TO THIRD PARTIES		
4	OTHER (ILLIQUID ITEMS, AS YET UNPROCESSED AMOUNTS)	10,771	10,525
TOTAL		10,771	10,525

LIABILITIES

SECTION 1 – FINANCIAL LIABILITIES VALUED AT AMORTISED COST - ITEM 10

1.1 Financial liabilities valued at amortised cost: composition of debts towards banks

TYPES OF OPERATIONS/ VALUES		TOTAL 31.12.2019				TOTAL 31.12.2018			
		BALANCE SHEET VALUE	FAIR VALUE			BALANCE SHEET VALUE	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1	**DEBTS TOWARDS CENTRAL BANKS**	264,231				**310,860**			
2	DEBTS TOWARDS BANKS	1,348,562				**1,939,054**			
2.1	CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	196,665				**609,810**			
2.2	DEPOSITS AT MATURITY	1,051,897				**1,156,466**			
2.3	FINANCING OPERATIONS	100,000				**172,778**			
2.3.1	REPURCHASE AGREEMENTS					**72,778**			
2.3.2	OTHERS	100,000				**100,000**			
2.4	PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
2.5	LEASE FOR LIABILITIES								
2.6	OTHER PAYABLES								
TOTAL		1,612,793			1,612,793	2,249,914			2,249,914

Legend:
L1= Level 1 L2 = Level 2 L3= Level 3

The Item 1 includes deposits received from foreign Central Banks.

1.2 Financial liabilities valued at amortised cost: product composition of amounts due to customers

TYPES OF OPERATIONS/ VALUES		TOTAL 31.12.2019				TOTAL 31.12.2018			
		BALANCE SHEET VALUE	FAIR VALUE			BALANCE SHEET VALUE	FAIR VALUE		
			L1	L2	L3		L1	L2	L3
1	CURRENT ACCOUNTS AND DEPOSITS AT SIGHT	115,962				**77,584**			
2	DEPOSITS AT MATURITY	104,017				**27,551**			
3	FINANCING OPERATIONS								
3.1	REPURCHASE AGREEMENTS								
3.2	OTHERS								
4	PAYABLES FOR REPURCHASE COMMITMENTS OF OWN EQUITY INSTRUMENTS								
5	LEASE FOR LIABILITIES	290							
6	OTHER PAYABLES	2,112				**270**			
TOTAL		222,381			222,381	105,405			105,405

Legend:
VB= Balance value L1= Level 1 L2 = Level 2 L3= Level 3

1.4 Detail of subordinated bonds/ liabilities

	TOTAL 31.12.2019
DEBTS TOWARDS BANKS	
SUBORDINATED LIABILITIES	100,00

SECTION 2 – ACCOUNTS PAYABLE TO CUSTOMERS - ITEM 20

2.1 Financial liabilities held for trading: breakdown by type

		TOTAL 31.12.2019					TOTAL 31.12.2018				
		VN	FV			FV*	VN	FV			FV*
			L1	L2	L3			L1	L2	L3	
A	**CASH LIABILITIES**										
1	ACCOUNTS PAYABLE TO BANKS										
2	ACCOUNTS PAYABLE TO CUSTOMERS										
3	DEBT SECURITIES										
3.1	BONDS										
3.1.1	STRUCTURED										
3.1.2	OTHER										
3.2	OTHER SECURITIES										
3.2.1	STRUCTURED										
3.2.2	OTHER										
TOTAL A											
B	**DERIVATIVES**										
1	FINANCIAL DERIVATIVES			2,435					3,601		
1.1	HELD FOR TRADING			2,435					3,601		
1.2	LINKED TO FAIR VALUE OPTION										
1.3	OTHER										
2	CREDIT DERIVATIVES										
2.1	HELD FOR TRADING										
2.2	LINKED TO FAIR VALUE OPTION										
2.3	OTHER										
TOTAL B				2,435					3,601		
TOTAL (A+B)				2,435					3,601		

Legend:
NV= nominal or notional value
L1= Level 1
L2 = Level 2
L3= Level3
FV* = fair value as reckoned by excluding variations in value due to changes intervened in the issuer’s creditworthiness since the issue date

SECTION 3 – FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE - ITEM 30

No data to report.

SECTION 4 – HEDGING DERIVATIVES – ITEM 40

No data to report.

SECTION 5 – ALUE ADJUSTMENT OF FINANCIAL LIABILITIES SUBJECT TO GENERIC HEDGING – ITEM 50

No data to report.

SECTION 7 – LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE - ITEM 70

See Section 11 of the assets.

SECTION 8 – OTHER LIABILITIES – ITEM 80

8.1 Other liabilities breakdown

		TOTAL 31.12.2019	TOTAL 31.12.2018
1	ACCRUED LIABILITIES		
2	OTHER LIABILITIES (SUMS AVAILABLE TO CUSTOMERS, ILLIQUID ITEMS)	17,520	15,333
TOTAL		17,520	15,333

SECTION 9 – EMPLOYEE SEVERANCE BENEFITS - ITEM 90

9.1 Staff severance fund: Yearly variations

ITEMS/VALUES			TOTAL 31.12.2019	TOTAL 31.12.2018
A	**OPENING BALANCE**		**1,104**	**1,461**
B	**INCREASES**		**37**	**16**
	B.1	PROVISIONING FOR THE YEAR	10	16
	B.2	OTHER INCREASES	27	
C	**DECREASES**		**55**	**373**
	C.1	SEVERANCE PAYMENTS	55	349
	C.2	OTHER DECREASES		24
D	**CLOSING BALANCE**		**1,086**	**1,104**
TOTAL			1,086	1,104

9.1.1 Rates

ANNUAL TECHNICAL	0.62%
ANNUAL INFLATION RATE	1.20%
ANNUAL FREQUENCIES OF TURNOVER ADVANCES	4.00%
ANNUAL FREQUENCIES OF ADVANCES ON SEVERANCE FUND	3.00%
GROSS ANNUAL SSF	2.40%

The following actuarial assumptions were used:

- demographic assumption: the basis was the RG48 life expectancy table published by the Italian General Accounting Office;
- economic assumption: the rate used to calculate present value was based on the Iboxx Corporate A index for a duration of 7-10 years, which now stands at 1.20%;
- the annual frequencies of turnover advances are inferred from the Bank's long-standing experience and the frequencies arising from the experience of the consulting firm (Managers & Partners) on a significant number of similar business enterprises.

9.1.2 Reconciliation of actuarial valuations under IAS 19

	TOTAL 31.12.2019	TOTAL 31.12.2018
OPENING BALANCE	**1,461**	**1,566**
REALIGNMENT		
PENSON COST		
FINANCIAL CHARGES	10	19
BENEFITS PAID	(55)	(133)
TRANSFERS		
EXPECTED LIABILITIES	**1,416**	**1,452**
ACTUARIAL LOSS	27	9
CLOSING BALANCE	**1,443**	**1,461**

9.2 Other information

	TOTAL 31.12.2019
PROVISIONING FOR THE YEAR	**38**
PENSION COSTS	
FINANCIAL CHARGES	11
ACTUARIAL LOSS	27
OTHER	

SECTION 10 – PROVISIONS FOR RISKS AND CHARGES – ITEM 100

10.1 Provisions for risks and charges: breakdown

			TOTAL 31.12.2019	TOTAL 31.12.2018
1	FUNDS FOR CREDIT RISK RELATING TO COMMITMENTS AND FINANCIAL GUARANTEES ISSUED		5,108	5,972
2	FUNDS ON OTHER COMMITMENTS AND OTHER GUARANTEES ISSUED			
3	COMPANY RETIREMENT FUNDS			
4	OTHER PROVISIONS FOR RISKS AND CHARGES		1,308	632
	4.1	LEGAL AND TAX DISPUTES	690	
	4.2	PERSONNEL COSTS	618	632
	4.3	OTHERS		
TOTAL			6,416	6,604

As of 31 December 2018, the item “Provisions for risks and charges” amounted to Euro 6.4 million and included charges of Euro 0.6 million for personnel, 0,7 million per legal disputes and Euro 5,1 million for allocations due to IFRS9 devaluations for financial commitments and guarantees issued.

10.2 Provisions for risks and charges: Yearly variations

	ITEMS/VALUES		FUNDS FOR OTHER COMMITMENTS AND GUARANTEES ISSUED	PENSION FUNDS	OTHER FUNDS FOR RISKS AND CHARGES	TOTAL
A	**OPENING BALANCE**		**5,972**		**632**	6,604
B	**INCREASES**		**1,330**		**690**	2,020
	B.1	ALLOCATION FOR THE YEAR	1,330		**690**	
	B.2	CHANGES DUE TO THE PASSAGE OF TIME				
	B.3	VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
	B.4	OTHER CHANGES				
C	**DECREASES**		**2,194**		**14**	
	C.1	USE DURING THE YEAR	2,194			
	C.2	VARIATIONS DUE TO CHANGES IN THE DISCOUNT RATE				
	C.3	OTHER CHANGES			**14**	
D	**CLOSING BALANCE**		**5,108**		**1,308**	**6,416**

10.3 Provisions for credit risk relating to commitments and financial guarantees issued

ITEMS/VALUES	PROVISIONS FOR CREDIT RISK RELATING TO COMMITMENTS,			
	FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL
COMMITMENTS TO DISBURSE FUNDS	29	32		61
FINANCIAL GUARANTEES ISSUED	955	597	3,495	5,047
TOTAL	984	629	3,495	5,108

10.6 Provisions for risks and charges – other provisions

	TOTAL 31.12.2019	TOTAL 31.12.2018
PROVISION FOR HOLIDAYS NOT TAKEN	618	632
LEGAL DISPUTES	690	
OTHER		
TOTAL	1,308	632

SECTION 11 –REDEEMABLE SHARES - ITEM 120

No data to report

SECTION 12 – SHAREHOLDERS' EQUITY - ITEMS 110, 130, 140, 150, 160, 170 AND 180

12.1 "Share capital" and "Treasury stock": breakdown

ITEMS/VALUES		TOTAL 31.12.2019	TOTAL 31.12.2018
1	SHARE CAPITAL	159,861	159,861
2	SHARE PREMIUM ACCOUNT	870	16,702
3	RESERVES	107,366	42,469
4	CAPITAL INSTRUMENTS		
5	(TREASURY STOCK)		
6	VALUATION RESERVES	834	(24,559)
7	PROFIT (LOSS) FOR THE YEAR	(26,144)	(51,457)
TOTALE		242,787	143,016

12.2 Share capital: Yearly variations in number of shares

			COMMON	OTHER
A	**SHARES AT START OF YEAR**		**1.453.280**	
		- FULLY PAID UP	1.453.280	
		- NOT FULLY PAID UP		
	A1	TREASURY STOCK		
	A2	SHARES OUTSTANDING: OPENING BALANCE	1.453.280	
B	**INCREASES**			
	B1	NEW SHARE ISSUES		
		RIGHTS ISSUES:		
		- COMBINATION OF COMPANIES		
		- CONVERSION OF BONDS		
		- EXERCISE OF WARRANTS		
		BONUS ISSUES:		
		- FOR EMPLOYEES		
		- FOR DIRECTORS		
		- OTHER		
	B2	SALE OF TREASURY STOCK		
	B3	OTHER INCREASES		
C	**DECREASES**			
	C1	CANCELLATIONS		
	C2	PURCHASE OF TREASURY STOCK		
	C3	DISPOSAL OF COMPANIES		
	C4	OTHER DECREASES		
D	**SHARES OUTSTANDING: FISCAL CLOSING BALANCE**		**1.453.280**	
	D1	TREASURY STOCK(+)		
	D2	SHARES AT END OF YEAR	1.453.280	
		- FULLY PAID UP	1.453.280	
		- NOT FULLY PAID UP		

Each of the Bank’s 1,453,280 shares has a face value of EUR 110.

12.4 Profit reserves: Other information

	AMOUNT	OPTIONS FOR ALLOCATION	AVAILABLE PORTION	ALLOCATIONS OVER PAST THREE YEARS
SHARE CAPITAL	**159.861**			
CAPITAL RESERVES	**870**			
SHARE PREMIUM ACCOUNT	870	A,B,C	870	
RESERVES	**6,041**			
A)LEGAL RESERVE	13,494	B	13,494	
B) EXTRAORDINARY RESERVE	0	A,B,C	0	
C) FTA/IFRS RESERVES	(7,758)			
D) ARETAINED PROFITIFRS 2005	305			
E) RETAINED PROFIT		A,B,C	0	
OTHER RESERVES	**101,325**			
TOTAL	6,911			
AMOUNT NOT ALLOCATABLE	6,041			
AMOUNT ALLOCATABLE	**870**			

Legend:
A= capital increase B= cover for losses C= distribution to shareholders

OTHER INFORMATION

1. COMMITMENTS AND FINANCIAL GUARANTEES ISSUED (OTHER THAN THOSE DESIGNATED AT FAIR VALUE)

		NOMINAL VALUE ON COMMITMENTS AND FINANCIAL GUARANTEES ISSUED			31.12.2019	31.12.2019
		(FIRST STAGE)	(SECOND STAGE)	(THIRD STAGE)		
	COMMITMENTS TO DISBURSE FUNDS	**7,009,293**	**489,340**	**3,200**	**7,501,833**	**10,623,668**
A	CENTRAL BANKS	45,000	41,500		86,500	101,420
B	PUBLIC ADMINISTRATIONS					
C	BANKS	6,099,398	340,576		6,439,974	9,446,671
D	OTHER FINANCIAL COMPANIES	180,698	40,881		221,579	101,086
E	NON-FINANCIAL COMPANIES	684,197	64,951	3,200	752,348	973,018
F	FAMILIES		1,432		1,432	1,473
	FINANCIAL GUARANTEES ISSUED	**547,904**	**125,849**	**16,733**	**690,486**	**867,055**
A	CENTRAL BANKS	25,484			25,484	19,700
B	PUBLIC ADMINISTRATIONS					
C	BANKS	373,642	43,416		417,058	586,489
D	OTHER FINANCIAL COMPANIES					
E	NON-FINANCIAL COMPANIES	148,778	82,433	16,733	247,944	260,866
F	FAMILIES					

3. ASSETS SET UP AS COLLATERAL FOR OWN LIABILITIES AND COMMITMENTS

	PORTFOLIOS	TOTAL 31.12.2019	TOTAL 31.12.2018
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT		
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
3	FINANCIAL ASSETS VALUED AT AMORTISED COST	511	512
4	TANGIBLE ASSETS OF WHICH: TANGIBLE ASSETS THAT CONSTITUTE INVENTORIES		

Such activities have been used by Banca d’Italia for issuing bank drafts.

4 ASSET MANAGEMENT AND BROKERAGE SERVICES

		SERVICES	AMOUNT
1	**TRADING IN FINANCIAL INSTRUMENTS ON BEHALF OF THIRD PARTIES**		
	A)	PURCHASES	
		1 REGULATED	
		2 UNREGULATED	
	B)	SALES	
		1 REGULATED	
		2 UNREGULATED	
2	**MANAGING INDIVIDUAL PORTFOLIOS**		
3	**CUSTODY AND ADMINISTRATION OF SECURITIES**		**744.738**
	A)	THIRD-PARTY SECURITIES ON DEPOSIT: CONNECTED WITH ACTING AS CUSTODIAN BANK (EXCLUDING ASSET MANAGEMENT)	
		1 SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	
		2 OTHER SECURITIES	
	B)	THIRD-PARTY SECURITIES ON DEPOSIT (EXCLUDING ASSET MANAGEMENT): OTHER	26.985
		1 SECURITIES ISSUED BY BANK THAT DRAWS UP BALANCE SHEET	14.379
		2 OTHER SECURITIES	12.606
	C)	THIRD-PARTY SECURITIES HELD BY THIRD PARTIES	18.588
	D)	OWN SECURITIES HELD BY THIRD PARTIES	699.165
4	**OTHER OPERATIONS**		

Note that the Bank’s memorandum accounts include third-party funds for a countervalue of EUR 3,2 billion (EUR 3,1 billion as of 31 December 2018) consisting of third-party securities and relative coupons, subject to judicial and international constraints. It should also be pointed out that part of said funds, for a countervalue of Euro 1.7 billion, have been transferred to other intermediaries following a provision issued by foreign judicial authorities, while awaiting definitive assignment.
It is difficult to forecast the outcome of the proceedings pending both in the United States and in Luxemburg but so far there are no signs of a negative outcome that would lead to liability for UBAE.

PART C : INFORMATION ON THE INCOME STATEMENT

SECTION 1 - INTEREST - ITEMS 10 AND 20

1.1 Interest and similar income: breakdown

ITEMS/TECHNICAL FORMS		DEBT SECURITIES	LOANS	OTHER OPERATIONS	TOTAL 31.12.2019	TOTAL 31.12.2018
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT	71			71	620
	1.1 FINANCIAL ASSETS HELD FOR TRADING	71			71	620
	1.2 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE					
	1.3 OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE					
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	353			353	1.453
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	11,648	31,196		42,844	49,322
	3.1 CREDITS TOWARDS BANKS	1,139	18,525		19,664	27,713
	3.2 CREDITS TOWARDS CUSTOMERS	10,509	13,671		23,180	21,609
4	DERIVATIVES FOR HEDGING OPERATIONS					
5	OTHER ASSETS					1
6	FINANCIAL LIABILITIES					
TOTAL		12,072	31,196		43,268	51,396
OF WHICH: INTEREST INCOME ON IMPAIRED FINANCIAL ASSETS		224	786		1,010	196
OF WHICH: INTEREST INCOME ON FINANCIAL LEASING						

Interest relating to customers' impaired assets amounted to Euro 1,010,993 (previously Euro 195,933 for the year ended 31/12/2018).

1.2 Interest and similar income: other information

1.2.1 Interest income from financial assets denominated in foreign currency

ITEMS/ TECHNICAL FORMS		IN BONIS		OTHER OPERATIONS	TOTAL 31.12.2019	TOTAL 31.12.2018
		DEBT SECURITIES	LOANS			
1	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT:	53			53	460
	1.1 FINANCIAL ASSETS HELD FOR TRADING	53			53	460
	1.2 FINANCIAL ASSETS DESIGNATED AT FAIR VALUE					
	1.3 OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE					
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	123			123	122
3	FINANCIAL ASSETS VALUED AT AMORTISED COST:	7,969	23,739		31,708	37,956
	3.1 CREDITS TOWARDS BANKS	432	15,323		15,755	23,742
	3.2 CREDITS TOWARDS CUSTOMERS	7,537	8,416		15,953	14,214
4	DERIVATIVES FOR HEDGING OPERATIONS					
5	OTHER ASSETS					
6	FINANCIAL LIABILITIES					
TOTAL		8,145	23,739		31,884	38,538

1.3 Interest charges and similar expenses: breakdown

ITEMS/TECHNICAL FORMS		DEBTS	SECURITIES	OTHER OPERATIONS	TOTAL 31.12.2019	TOTAL 31.12.2018
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	**28,551**			**28,551**	**37,803**
	1.1 DEBTS TOWARDS CENTRAL BANKS	**2,153**			**2,153**	**1,982**
	1.2 DEBTS TOWARDS OTHER BANKS	**25,158**			**25,158**	**35,331**
	1.3 DEBTS TOWARDS CUSTOMERS	1,240			1,240	490
2	FINANCIAL LIABILITIES FOR TRADING					
3	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4	OTHER LIABILITIES AND FUNDS					
5	HEDGING DERIVATIVES					
6	FINANCIAL ASSETS			13	13	
TOTAL		28,551		13	28,564	37,803
OF WHICH: INTEREST EXPENSE RELATING TO LEASE LIABILITIES		**5**			**5**	

1.4 Interest charges and similar expenses: Other information

1.4.1 Interest charges on liabilities denominated in foreign currency

ITEMS/TECHNICAL FORMS		DEBTS	SECURITIES	OTHER OPERATIONS	TOTAL 31.12.2019	TOTAL 31.12.2018
1	FINANCIAL LIABILITIES VALUED AT AMORTISED COST	**20,800**			**20,800**	**29,116**
	1.1 DEBTS TOWARDS CENTRAL BANKS	724			724	419
	1.2 DEBTS TOWARDS OTHER BANKS	18,850			18,850	28,207
	1.3 DEBTS TOWARDS CUSTOMERS	1,226			1226	490
	1.4 SECURITIES ISSUED					
2	FINANCIAL LIABILITIES FOR TRADING					
3	FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE					
4	OTHER LIABILITIES AND FUNDS					
5	HEDGING DERIVATIVES					
6	FINANCIAL ASSETS					
TOTAL		20,800			20,800	29,116

SECTION 2 - COMMISSION INCOME AND EXPENSE - ITEMS 40 AND 50

2.1 Commission income: breakdown

		TYPE OF SERVICES/VALUES	TOTAL 31.12.2019	TOTAL 31.12.2018
A)	**GUARANTEES ISSUED**		19,816	17,601
B)	**CREDIT DERIVATIVES**			
C)	**MANAGEMENT, BROKERAGE AND CONSULTANCY SERVICES:**		770	731
	1	TRADING FINANCIAL INSTRUMENTS		
	2	TRADING FOREIGN CURRENCY	770	731
	3	MANAGING INDIVIDUAL PORTFOLIOS		
	4	CUSTODY AND MANAGEMENT OF SECURITIES		
	5	DEOPOSITY BANK		
	6	PLACEMENT OF SECURITIES		
	7	RECIVING AND TRASMITTING ORDERS		
	8	CONSULTANCY ACTIVITIES		
		8.1 ON INVESMENTS		
		8.2 ON FINANCIAL STRUCTURE		
	9	DISTRIBUTION OF THIRD-PARTY SERVICE		
		9.1 MANAGING PORTFOLIOS		
		9.1.1 INDIVIDUAL PORTFOLIOS		
		9.1.2 COLLETTIVE PORTFOLIOS		
		9.2 INSURANCE PRODUCTS		
		9.3 OTHER PRODUCTS		
D)	**COLLECTION AND PAYMENT SERVICE**		10	10
E)	**SERVICING FOR SECURIRISATION TRANSACTIONS**			
F)	**SERVICING FOR FACTORING OPERATIONS**		307	185
G)	**EXERCISE OF TAX COLLECTION AND RECIVERS**			
H)	**MANAGING MULTILATERAL TRADING SYSTEM**			
I)	**KEEPING AND MANAGING CURRENT ACCOUNTS**		15	15
J)	**OTHER SERVICES**		1,663	2,900
TOTAL			**22,581**	**21,442**

The item “Other services” includes receivable commissions relating to loans and discounts granted to customers and banks.

2.3 Commission expense: breakdown

SERVICES/VALUES					TOTAL 31.12.2019	TOTAL 31.12.2018
A)	GUARANTEES RECEIVED				7,881	4,642
B)	CREDIT DERIVATIVES					
C)	MANAGEMENT AND BROKERAGE SERVICES					
	1	TRADING IN FINANCIAL INSTRUMENTS				
	2	FOREX			1	
	3	ASSET MANAGEMENT				
		3.1	OWN PORTFOLIO			
		3.2	THIRD-PARTY PORTFOLIOS			
	4	CUSTODY AND ADMINISTRATION OF SECURITIES				
	5	PLACEMENT OF SECURITIES				
	6	OFF-PREMISES DISTRIBUTION OF SECURITIES, PRODUCTS AND SERVICES				
D)	COLLECTION AND PAYMENT SERVICES				6	3
E)	OTHER SERVICES				336	345
TOTAL					8,224	4,990

The item includes commissions downgraded to banking counterparties on guarantees issued by our Bank, and commissions downgraded to counterparties participating in syndicated pool loans.

SECTION 3 – DIVIDENDS AND SIMILAR INCOME – ITEM 70

3.1 Dividends and similar income: breakdown

VOCI/PROVENTI		31.12.2019		31.12.2018	
		DIVIDENDS	INCOME FROM INVESTMENT FUNDS	DIVIDENDS	INCOME FROM INVESTMENT FUNDS
A	FINANCIAL ASSETS HELD FOR TRADING				
B	FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE				
C	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON OVERALL PROFITABILITY	1			
D	EQUITY INVESTMENTS				
TOTAL		1			

SECTION 4 – NET TRADING INCOME – ITEM 80

4.1 Net result of trading activities: composition

		OPERATIONS/INCOME COMPONENTS	CAPITAL GAINS (A)	PROFIT FROM TRADING (B)	LOSSES (C)	LOSSES FROM TRADING (D)	NET RESULT (A+B) - (C+D)
1		**FINANCIAL ASSETS FOR TRADING**	**2**	**439**	**15**	**110**	**316**
	1.1	DEBT SECURITIES	2	322	7	53	264
	1.2	CAPITAL SECURITIES		72	8	12	52
	1.3	O.I.C.R. PORTIONS		41		45	(4)
	1.4	FINANCING OPERATIONS					
	1.5	OTHERS		4			4
2		**FINANCIAL LIABILITIES FOR TRADING**					
	2.1	DEBT SECURITIES					
	2.2	DEBTS					
	2.3	OTHERS					
3		**FINANCIAL ASSETS AND LIABILITIES: EXCHANGE DIFFERENCES**					**4,392**
4		**DERIVATIVE INSTRUMENTS**	**349**	**5,208**	**509**	**7,750**	**(7,633)**
	4.1	FINANCIAL DERIVATIVES:	349	5,208	509	7,750	(7,633)
		- ON DEBT SECURITIES AND INTEREST RATES	349	4,937	509	7,385	(2,608)
		- ON CAPITAL SECURITIES AND EQUITY INDICES		271		365	(94)
		- ON FOREIGN CURRENCIES AND GOLD					(4,931)
		OTHERS					
	4.2	CREDIT DERIVATIVES					
TOTAL			351	5,647	524	7,860	(2,925)

(*)The amount reflects the profit deriving from the valuation of items in foreign currency.
(**) Capital gains and losses (Euro -0,2 million) reflect the fair value measurement of financial derivatives on interest rates and foreign currencies and are included respectively in asset item 20 (below Euro 1.1 million) and in item 20 of liabilities (below Euro 2.4 million).

SECTION 5 – NET INCOME FROM HEDGING ACTIVITIES – ITEM 90

No data to report.

SECTION 6 – NET INCOME FROM DISPOSALS AND REPURCHASES – ITEM 100

6.1 Profit (Loss) from sale/repurchase: composition

ITEMS/INCOME COMPONENTS			TOTAL 31.12.2019			TOTAL 31.12.2018		
			PROFIT	LOSS	NET RESULT	PROFIT	LOSS	NET RESULT
FINANCIAL ASSETS								
A	FINANCIAL ASSETS							
1	FINANCIAL ASSETS VALUED AT AMORTISED COST:							
	1.1	CREDITS TOWARDS BANKS						
	1.2	CREDITS TOWARDS CUSTOMERS						
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		3	(9)	(6)		(252)	(252)
	2.1	DEBT SECURITIES	3	(9)	(6)		(252)	(252)
	2.4	FINANCIAL OPERATIONS						
TOTAL ASSETS			3	(9)	(6)		(252)	(252)
FINANCIAL LIABILITIES VALUED AT AMORTISED COST								
1	DEBTS TOWARDS BANKS							
2	DEBTS TOWARDS CUSTOMERS							
3	SECURITIES ISSUED							
TOTAL LIABILITIES								

SECTION 7 – NET RESULT OF OTHER FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT – ITEM 110

No data to report.

SECTION 8 – ADJUSTMENTS / NET WRITE-BACKS FOR CREDIT RISK – ITEM 130

8.1 Net value adjustments for credit risk relating to financial assets valued at amortised cost: breakdown

	OPERATIONS/ INCOME COMPONENTS	VALUE ADJUSTMENTS (1)			VALUE RECOVERY (2)		TOTAL 31.12.2019 (1-2)	TOTAL 31.12.2018
		FIRST AND SECOND STAGES	THIRD STAGE		FIRST AND SECOND STAGES	THIRD STAGES		
			WRITE-OFFS	OTHERS				
A	CREDITS TOWARDS BANKS			62	4,205		**4,143**	**(2,610)**
	- FINANCING OPERATIONS			62	3,156		3,094	(2,398)
	- DEBT SECURITIES OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED				1,049		1,049	(212)
B	CREDITS TOWARDS CUSTOMERS:	15,671		19,169	2,632	6,123	**(26,085)**	**(44,031)**
	- FINANCING OPERATIONS	88		19,169	2	6,123	(13,132)	(42,343)
	- DEBT SECURITIES OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED	15,593			2,630		(12,953)	(1,688)
C	TOTAL	15,671		19,231	6,837	632	(21,942)	(46,641)

8.2 Net value adjustments for credit risk relating to financial assets measured at fair value with impact on overall profitability: composition

	OPERATIONS/ INCOME COMPONENTS	VALUE ADJUSTMENTS (1)		VALUE RECOVERY (2)		TOTAL 31.12.2019 (1-2)	TOTAL 31.12.2018
		FIRST AND SECOND STAGES	THIRD STAGE	FIRST AND SECOND STAGES	THIRD STAGE		
A	DEBT SECURITIES			733	169	**942**	**(2,167)**
B	FINANCING OPERATIONS						
	- TOWARDS CUSTOMERS						
	- TOWARDS BANKS						
	OF WHICH: IMPAIRED CREDITS ACQUIRED OR ORIGINATED						
	TOTAL			733	169	942	(2,167)

SECTION 9 – PROFITS / LOSSES FROM CONTRACTUAL CHANGES WITHOUT CANCELLATIONS – ITEM 140

No data to report.

SECTION 10 – ADMINISTRATION EXPENSES – ITEM 160

10.1 Personnel expenses: breakdown

			TOTAL 31.12.2019	TOTAL 31.12.2018
1	**STAFF**		**17,317**	**17,882**
	A)	WAGES AND SALARIES	11,182	12,234
	B)	SOCIAL SECURITY CONTRIBUTIONS	3,396	3,499
	C)	SEVERANCE PAYMENTS		
	D)	PENSION PAYMENTS		
	E)	ALLOCATIONS TO THE STAFF SEVERANCE FUND		
	F)	ALLOCATIONS TO THE PROVISION FOR PENSIONS AND SIMILAR LIABILITIES:		
		- DEFINED CONTRIBUTION		
		- DEFINED BENEFIT		
	G)	PAYMENTS TO EXTERNAL COMPLEMENTARY PENSION FUNDS:	754	784
		- DEFINED CONTRIBUTION	754	784
		- DEFINED BENEFIT		
	H)	COSTS ARISING FROM AGREEMENTS TO MAKE PAYMENTS IN OWN EQUITY INSTRUMENTS		
	I)	OTHER BENEFITS TO STAFF	1,985	1,365
2	**NON-SALARIED PERSONNEL**		**182**	**400**
3	**DIRECTORS**		**1,748**	**2,155**
4	**RETIRED PERSONNEL**			
5	**EXPENSES RECOUPED FOR STAFF SECONDED TO OTHER INSTITUTIONS**			
6	**EXPENSES REIMBURSED FOR STAFF SECONDED FROM OTHER INSTITUTIONS**			
TOTAL			19,247	20,437

10.2 Average number of employees per category

EMPLOYEES:		
A)	EXECUTIVES	6
B)	MANAGERS	90
C)	REMAINING EMPLOYEES	90
OTHER PERSONNEL		

10.4 Other staff benefits

	TOTAL 31.12.2019	TOTAL 31.12.2018
EARLY RETIREMENT PAYMENTS		
OTHER PAYMENTS	1,985	1,365
TOTAL	1,985	1,365

10.5 Other administration expenses: breakdown

		TOTAL 31.12.2019	TOTAL 31.12.2018
A)	IT EXPENSES	2,224	2,399
B)	EXPENSES FOR MOVABLE/IMMOVABLE PROPERTY:	1,041	1,066
	- RENTALS AND OTHER FEES	107	158
	- OTHER	934	908
C)	EXPENSES FOR THE PURCHASE OF GOODS AND NON-PROFESSIONAL SERVICES	2,528	2,579
D)	EXPENSES FOR PROFESSIONAL SERVICES	2,913	2,650
E)	INSURANCE PREMIUMS	176	179
G)	ADVERTISING	200	175
H)	INDIRECT DUTIES AND TAXES	626	515
I)	OTHER :	2,395	1,929
	OF WHICH: RESOLUTION FUNDS AND DEPOSIT GUARANTEE SCHEMES (DGS)	2,002	1,318
TOTAL		12,103	11,492

Item i) "Other" as of 31 December 2019 includes charges incurred for the Single Resolution Fund (FRU) and the National Resolution Fund (FRN), relating respectively to the ordinary and extraordinary portion, requested by Banca d'Italia and amounting to about Euro 2 million.

SECTION 11 – NET PROVISIONING FOR RISKS AND CHARGES – ITEM 170

11.1 Net provisions for credit risk relating to commitments to disburse funds and financial guarantees issued: composition

	TOTAL 31.12.2019	TOTAL 31.12.2018
LEGAL DISPUTES	690	
COMMITMENTS TO DISBURSE FUNDS AND FINANCIAL GUARANTEES ISSUED	(865)	2,247
OTHER RISKS AND CHARGES	187	98
TOTAL	12	2,345

11.3 Net provisions to other funds for risks and charges: composition

	TOTAL 31.12.2019	TOTAL 31.12.2018
OTHER RISKS AND CHARGES	187	98
TOTAL	187	98

SECTION 12 - NET ADJUSTMENTS TO TANGIBLE FIXED ASSETS – ITEM 180

12.1 Net value adjustments on tangible assets: breakdown

ASSETS/INCOME COMPONENT		AMORTISATION (A)	VALUE ADJUSTMENTS FOR IMPAIRMENT (B)	VALUE RECOVERIES (C)	NET RESULT (A+B-C)
A	**TANGIBLE ASETS**				
1	FOR FUNCTIONAL USE	1,057			1,057
	- OWNED	897			897
	- RIGHT OF USE ACQUIRED TROUGH LEASING	160			160
2	**FOR INVESTMENT**				
	- OWNED				
	- RIGHT OF USE ACQUIRED TROUGH LEASING				
3	**INVENTORIES**				
TOTAL		1,057			1,057

SECTION 13 - NET ADJUSTMENTS TO INTANGIBLE FIXED ASSETS – ITEM 190

13.1 Net adjustments to intangible fixed assets: breakdown

ASSETS/INCOME COMPONENT			AMORTISATION (A)	VALUE ADJUSTMENTS FOR IMPAIRMENT (B)	VALUE RECOVERIES (C)	NET RESULT (A+B-C)
A	INTANGIBLE ASETS					
	A1	OWNED	316			316
		- GENERATED INTERNALLY BY THE BANKS				
		- OTHERS	316			316
	A2	RIGHT OF USE ACQUIRED TROUGH LEASING				
TOTAL			316			316

SECTION 14 – OTHER OPERATING INCOME / CHARGES – ITEM 200

14.1. Other operating charges: breakdown

	TOTAL 31.12.2019	TOTAL 31.12.2018
OTHER OPERATING CHARGES	187	192
TOTAL	187	192

14.2. Other operating income: breakdown

	TOTAL 31.12.2019	TOTAL 31.12.2018
DUTIES AND TAXES RECOUPED	24	1,940
RENTALS AND FEES	2	8
INCOME FROM IT SERVICES RENDERED:		
- TO COMPANIES WITHIN THE BANKING GROUP		
- TO OTHERS		
EXPENSES RECOUPED:		
- FOR OWN STAFF SECONDED TO THIRD PARTIES		
- ON DEPOSITS AND CURRENT ACCOUNTS	180	59
- OTHER	1,298	1,200
SSF ATTRIBUTION TO PROFIT AND LOSS		
OTHER INCOME	107	295
TOTAL	1,611	3,502

SECTION 15 – GAINS (LOSSES) FROM EQUITY INVESTMENTS - ITEM 220

No data to report.

SECTION 16 – NET ADJUSTMENTS TO FAIR VALUE OF TANGIBLE AND INTANGIBLE ASSETS – ITEM 230

No data to report.

SECTION 17 – ADJUSTMENTS TO GOODWILL – ITEM 240

No data to report.

SECTION 18 – GAINS (LOSSES) FROM THE DISPOSAL OF INVESTMENTS - ITEM 250

No data to report.

SECTION 19 – INCOME TAX FOR THE YEAR ON CONTINUING OPERATIONS –ITEM 270

19.1 Income tax for the year on continuing operations: breakdown

No data to report.

19.2 Reconciliation of theoretical tax liability and actual book liability

	TOTAL 31.12.2019	TOTAL 31.12.2018
PROFIT BEFORE TAX	**(26,144)**	**(51,457)**
THEORETICAL IRES AND IRAP DUE		
IRAP ADJUSTMENTS FOR ADMINISTRATION EXPENSES		
IRAP ADJUSTMENTS FOR WRITE-OFFS		
TAXES ON NON-DEDUCTIBLE COSTS		
PRE-PAID AND DEFERRED TAXES		
NET WORTH INCREASE BENEFIT		
TOTAL TAXES		
NET PROFIT	(26,144)	(51,457)

As regards the tax effect relating to the year 2019, please refer to "The year's key results".

SECTION 20 – PROFIT (LOSS) FROM DISCONTINUED OPERATIONS NET OF TAX EFFECT - ITEM 290

No data to report.

SECTION 21 – OTHER INFORMATION

No data to report.

SECTION 22 – PROFIT PER SHARE

No data to report.

PART D COMPREHENSIVE INCOME DETAIL

	ITEMS	TOTAL 31.12.2019	TOTAL 31.12.2018
10	**PROFIT (LOSS) FOR YEAR**	**(26,144)**	**(51,457)**
70	**OTHER INCOME COMPONENTS WITHOUT REVERSAL TO INCOME STATEMENT**	**(31)**	**41**
	DEFINED BENEFIT PLANS	(31)	41
	OTHER INCOME COMPONENTS WITH REVERSAL TO THE INCOME STATEMENT	**25,423**	**(25,156)**
150	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY:	25,423	(25,156)
	A) CHANGES IN FAIR VALUE	25,423	(25,156)
190	**TOTAL OTHER INCOME COMPONENTS**	**25,393**	**(25,115)**
200	**OVERALL PROFITABILITY (10+190)**	**(752)**	**(76,572)**

PART E - RISKS AND THEIR COVERAGE

GOVERNANCE

Banca UBAE has adopted a traditional governance model, appropriately adapted to take into account the peculiar characteristics of the shareholding (since October 2010, the Libyan Foreign Bank holds 67.55% of the capital with voting rights) and the need to guarantee full functionality and effectiveness of corporate bodies.

Within the traditional model, in addition to the Shareholders' Meeting representing all the shareholders, the following bodies[2] are identified:

- the **Board of Directors** (composed of 9 to 11 members) is both a strategic supervisory body and a management body; as envisaged by the corporate by-laws, pursuant to article 2381 of the Civil Code, the Board – if deemed appropriate – can delegate some of its powers to an Executive Committee without prejudice to the limitations of the law and the by-laws;

- The **General Manager**, appointed by the Board of Directors, participates in the management function as Head of the Executive and conducts the preliminary examination of matters submitted to the Board of Directors;

- the **Board of Statutory Auditors** is a control body.

The Board of Directors of Banca UBAE has resolved to exercise its powers and expertise using proposals and consultancy as a preliminary step, as well as internal committees in each of which independent directors must be present (at least two in the Control & Risk Committee; at least one in the Remuneration Committee). The Advisory Committees, without deliberative powers, are currently the following:

- Control & Risk Committee
- Remuneration Committee

Each of the above Committees has its own regulations which govern its composition, functions and operating methods.

[2] Pursuant to article 22 of the Articles of Association (approved by the Extraordinary General Meeting on 15 June 2016) the Board of Directors has decided – for the time being – to postpone the appointment of the Executive Committee, although it is understood that the latter may be established in the future if the Board deems it necessary.

BOARD OF DIRECTORS

The Board has exclusive powers to:

- decide on corporate strategic lines and operations;
- approve the industrial and financial plans as well as the budget;
- deliberate the Internal Regulations;
- approve the organisation chart and decide on changes to it;
- undertake periodic re-examination of the previous points, in relation to the evolution of the Bank's activities and the external context, in order to ensure its effectiveness over time; to this end, the Board promotes full use of the ICAAP findings (Internal Capital Adeguacy Assessment Process) and ILAAP (Internal Liquidity Adequacy Assessment Process) for strategic purposes and business decisions;
- establish the guidelines for the internal control system, approving the corporate control functions (Internal Audit, Compliance & Risk Management), verifying that the internal control system is consistent with the Bank's strategic guidelines and risk appetite;
- ensure that the efficiency, effectiveness and functionality of the internal control system are periodically assessed and that the results of the checks are promptly brought to the Board's attention;
- ensure that a correct, complete and prompt IT system is designed, adopted and maintained over time;
- decide on the establishment and suppression of branches and representation offices in Italy and abroad;
- deliberate the acquisition and cession of relevant holdings;
- undertake the preparation of the annual budget accompanied by a report in accordance with the law;
- appoint and revoke the members of the Oversight Body pursuant to legislative decree no. 231/2001;
- establish the remuneration and incentive policies for the members of the corporate bodies with strategic supervision, management and control functions and the remaining personnel, including any plans based on financial instruments, and the criteria for determining the remuneration to be paid in the event of early termination of the employment relationship or early termination of office, including the limits set for said remuneration regarding

annual payments of the fixed remuneration and the maximum amount resulting from their application, to be submitted for the approval of the Ordinary Shareholders' Meeting.

In line with the policy on credit risk and counterparty risk approved in August 2018, the Board of Directors exercises the power of direction in the matter of granting credit lines and may resolve assignments within the limits of the current legal provisions.

The Board of Directors delegates the powers to grant credit facilities within prefixed limits to the Credit Committee, the General Manager and the Deputy General Manager.

The resolution of the assignments falling within the scope of article 136 of the Consolidated Banking Law (T.U.B.) and the assignments to related parties are the responsibility of the Board of Directors alone, based on the specific procedure. It is generally the task of the Board of Directors, acting on a proposal by the General Manager, to take decisions in relation to losses and write-downs of impaired loan positions, as well as any agreements for the restructuring of receivables exceeding the limits established by delegating powers.

Resolution powers, regarding any agreements for credit restructuring regardless of the duration, are delegated the General Manager and the Deputy General Manager, in compliance with the pre-established limits.

Furthermore, acting on a proposal by the General Manager, a plan of expenses and investments for the following year is approved by the Board of Directors, which will include an annual budget relating to general expenses divided into sections and sub-sections.

All acts of extraordinary administration relating to non-credit operations are delegated to the Executive Committee (if appointed) and to the General Manager, within pre-established limits.

In the field of personnel management, the Board of Directors:

- appoints and dismisses the General Manager, Deputy General Manager, Assistant General Managers and other managers, setting their remuneration (article 18 of the by-laws) and the related powers;

- appoints and dismisses, after consulting the Board of Statutory Auditors and in compliance with current legislation and taking into account the principle of proportionality, the anti-money laundering officers, the internal audit function, the compliance control function, the risk control function, granting to each the powers of representation necessary for the performance of their respective duties;

- appoints and dismisses the Head of the Business Continuity Plan, the Data Governance Contact, the Head of the internal whistleblowing reporting system and the Data Protection Officer;

- resolves on any interim positions in the General Management;

- grants powers of representation and social signature, on the General Manager's proposal, to employees with less than a managerial qualification, by approving a specific service order;

- approves the Corporate Supplementary Contract, upon the General Manager's proposal and following the Staff Committee's favourable opinion;

- establishes the remuneration and incentive policies and any plans based on financial instruments, to be submitted for approval by the ordinary shareholders' meeting, in favour of directors, employees and collaborators not linked to the company by subordinate employment relationships;

- establishes the remuneration and incentive policies and any plans based on financial instruments, to be submitted for approval by the ordinary shareholders' meeting, in favour of directors, employees and collaborators not linked to the company by subordinate employment relationships;

- approves the results of any exclusion of the most important personnel, and periodically reviews the related criteria;

- hires non-executive staff (employees, managerial staff) on open-ended contracts, subject to the favourable opinion of the Personnel Committee;

- appoints and revokes, upon the General Manager's proposal, consultants of the Bank's foreign commercial network and the consultants necessary to support the Board itself.

Finally, the Corporate Delegate for reporting suspicious transactions is appointed by the Chairman of the Board of Directors, as the legal representative of the Bank.

GENERAL MANAGER

The General Manager participates in the meetings of the Board of Directors without voting rights but entitled to propose motions, submitting the documents and materials for examination and approval and providing any clarification required. In case of absence or impediment, he is replaced by the Deputy General Manager who will act in his stead.
The General Manager represents the top of the internal structure and participates in the management function, and is the recipient of the information flows arranged for corporate bodies.
He executes all the administrative acts connected to the Bank's ordinary management and is responsible for implementing the decisions taken by the advisory committees.

BOARD OF STATUTORY AUDITORS

The Board of Statutory Auditors is responsible for overseeing compliance with the law and bylaws, compliance with the principles of proper administration and the adequacy of the Bank's organisational, administrative and accounting structure. In particular, the Board of Statutory Auditors monitors the completeness, adequacy, functionality and reliability of the internal control system and the Risk Appetite Framework (RAF). Furthermore, the Board of Statutory Auditors is required to check the effectiveness of all the structures and control functions involved and their appropriate coordination, introducing corrective actions to deal with shortcomings and irregularities found.

The Board of Statutory Auditors will promptly inform Banca d'Italia of all the actions or facts of which it becomes aware in the exercise of its duties, which may constitute an irregularity in the management of the Bank or a violation of the rules governing banking activities.

To carry out its duties, the Board of Statutory Auditors is provided with adequate information flows from other corporate bodies and control functions.

The Board of Statutory Auditors also acts as the Oversight Body established pursuant to legislative decree no. 231/2001 concerning the administrative responsibility of institutions, overseeing the functioning and compliance with the Bank's organisational and management model.

ADVISORY COMMITTEES

Control & Risk Committee

The Control & Risk Committee (CRC) is a support and advisory body for the Board of Directors with the task of advising and putting forward suggestions for the Board to consider; it also deals with the preliminary functions of Departments for questions falling within its field of competence (internal controls, risks, governance).

Remuneration Committee

The Remuneration Committee (CR) is a support and advisory body for the Board of Directors with the task of advising and putting forward suggestions for the Board to consider; it supports the Oversight Body with regard to determining the criteria for quantifying the remuneration of all the relevant personnel, and for determining the variable component of the remuneration of Directors, managers and other employees, and the fees to be paid to Board members for specific duties assigned to them. It is also responsible for establishing the criteria for the remuneration of the consultants of the foreign commercial network as well as the Head of the Representation Office in Tripoli, Libya.

INTERNAL CONTROL SYSTEM

Banca UBAE's internal control system consists of a set of rules, procedures and organisational structures aimed at enabling the sound and prudent management of banking activities through a process of identification, measurement, management and monitoring of the main risks.
The internal control system has been designed in accordance with the regulatory and supervisory framework, with the Bank's organisational structure and in line with national and international standards and best practices.

At present, Banca UBAE's internal control and risk management system consists of the following:

- **line controls** (known as "first-level controls"), which aimed at ensuring the proper conduct of operations. They are carried out by the operating structures (e.g. hierarchical, systematic and random checks), also through different units that report to the managers of the operating structures, i.e. performed within the back office;
- **controls on risks and compliance** (known as "second-level controls"): entrusted to structures other than production, which have the objective of ensuring, among other things, the correct implementation of the risk management process, compliance with the operational limits assigned to the various functions and compliance with the rules of corporate operations: these controls are conducted mainly by the Risk Management Department and the Compliance Department. In particular, the Risk Management Department deals with the definition of risk measurement methodologies and the control of compliance with risk limits, while the Compliance Department is responsible for checking compliance with relevant legislation, also carrying out verification activities;

- **internal reviews** (known as "third-level controls"), to identify violations of procedures, regulations and to periodically assess the completeness, functionality and adequacy, in terms of efficiency and effectiveness, of the Internal Control, including on the IT system (ICT audit), with fixed frequency in relation to the nature and intensity of the risks; these activities are carried out by the Internal Audit Department.

The main aspects of the Bank's internal control system are summarised below.

Governance model

Banca UBAE has established a system of rules, procedures and organisational structures that pursue:

- compliance with corporate strategies;
- the effectiveness of business processes;
- ensuring operations comply with legislative provisions, supervisory obligations, regulations and internal procedures;
- protecting the business system from losses.

To achieve these objectives, the various units in the control system are involved, each for their own competence. Roles and functions are described below according to the current structure.

As part of the design of the internal control system and of the risk governance system, the Board of Directors has decided to set up some internal management committees, approving the related operating regulations.

Internal managerial committees

The Credit Committee consists of: the General Manager, Deputy General Manager, Head of Credit and Controls Area.
The Loans Committee is the proposing body for the granting of credit lines to be submitted to the Board of Directors; it exercises the assignment powers within the limits delegated by the Board of Directors, revokes the assignments resolved by the Board of Directors (with the exception of those falling within the application of article 136 of the Consolidated Banking Law T.U.B. and against related parties) and is competent to discuss any matter concerning the granting of credit and the monitoring of the related risk.

The **Risk Committee** is made up of: General Manager, Deputy General Manager, Head of Administration, Organisation and IT.

The Risk Committee proposes to the Board of Directors the guidelines for the management of each single quantifiable and non-quantifiable risk; examines the Risk Appetite Framework (RAF) verifying the consistency of the Bank's risk profile with the limits provided therein; discusses and evaluates the effectiveness of the policies approved for the identification, measurement and management of all risks; periodic reports relating to the absorption of regulatory and economic capital from an ICAAP standpoint; the annual ICAAP and ILAAP reporting; periodic reports regarding the monitoring of regulatory limits, internal operating limits, risk indicators, periodic simulations of stress testing and prospective analyses; the operational strategies of the Finance Department and the use of financial derivatives to hedge risks, providing where appropriate specific instructions to the Head of the Finance Department and laying down restrictive provisions of the operating limits in force; proposes to the Board of Directors changes in the operating limits assigned to the various finance portfolios and possible exceptions; submits disinvestment operations to the Board of Directors from the HTC (Held-to- Collect) portfolio.

The Personnel Committee is made up of the General Manager and Deputy General Manager (with voting rights), HR Manager (without voting right).

As a preliminary step, the Personnel Committee examines the proposals relating to the recruitment of personnel (with the exception of the members of the General Management) and the transformation of the related contracts, defines the criteria and modalities related to the career advancement of the personnel and the payment of the variable remuneration component in line with the remuneration policies established by the competent body; examines the Corporate Supplementary Contract, as a preliminary step.

ROLES AND RESPONSIBILITIES OF THE BANK'S CONTROL UNITS

• Risk Management Department

The Risk Management Department forms part of the General Manager's staff to whom it reports functionally while reporting hierarchically to the Board of Directors also via the Audit & Risk Committee. This Department carries out support activities in the context of strategic planning decided by the senior management, ensuring the monitoring and reporting of each category of risk in light of the established operating limits.

The monitoring aims to ensure that the effective risk profile (i.e. overall internal capital) does not exceed the accepted level of risk for each category. The communication and analysis of the risk profile are performed through an appropriate reporting system, shared and subjected to independent periodic checks.

From an ICAAP (Internal Capital Adequacy Assessment Process) perspective, the Department
From an ICAAP (Internal Capital Adequacy Assessment Process) perspective, the Department develops, updates and improves methodologies and tools for impact assessment and risk

monitoring; it oversees risk management models, conducts stress tests and prospective analyses and supports the capital management process.

Regarding ILAAP (Internal Liquidity Adequacy Assessment Process), the Department monitors the Bank's exposure to liquidity risk, produces the weekly reporting flow to the Oversight Body, prepares reporting for senior management, and conducts the defined stress tests in the context of remediation.

Regarding the Risk Appetite Framework (RAF), the Department carries out periodic monitoring and reporting of risk appetite limits and deals with their annual revision if required. The Department Manager also puts forward consistency opinions with the RAF of the Most Significant Operations (OMR) as required by the current management process.

Regarding the Recovery Plan, the Department supports the definition of stress scenarios in order to verify the adequacy of the recovery options identified and the effectiveness of the recovery indicators selected, together with the related alarm thresholds. It also monitors and reports the indicators pertaining to the categories of capital, liquidity, profitability and asset quality in order to verify the achievement of the attention thresholds and the possible need to activate the appropriate interventions.

As part of the process of adaptation to the international accounting standard IFRS9, the Department supports the definition of the staging criteria and in particular the concept of "significant credit deterioration"; it verifies the correctness of the macroeconomic scenarios aimed at transforming risk parameters with a view to forward-looking for the purpose of impairment of performing loans, and lastly supports the decision-making process by accompanying the loan proposals with specific information on expected credit loss.

As part of the remuneration policies, the Department calculates the value of the reference indicator for the purpose of determining the bonus pool, elaborates and, where needed, updates the indicators set for the purpose of disbursing the bonus (including the deferred component) taking care to ensure integration between incentive systems and strategic risk management processes (ICAAP/ILAAP, RAF and Recovery Plan).

The Department Manager participates without voting rights in the meetings of the Risk Committee carrying out the secretarial functions, and is periodically required to report his activity to the Audit & Risk Committee.

• Compliance & Anti Money-Laundering Department

The unit for checking conformity (compliance) with regulations is organised as a Department, and forms part of the Board of Directors' staff, and is responsible for providing internal consultancy to the Bank's offices, business units and the General Management, on the application of internal and external rules and regulations; it is also responsible for assessing the impact in advance that any procedural change and/or new product or service could generate in terms of non-compliance with the above rules and regulations.

The Department performs the following tasks:

- continuously identifying the rules applicable to the Bank, measuring and assessing their impact on corporate processes and procedures;
- submitting to the General Management proposals for organisational and procedural changes aimed at minimising or eliminating the risks identified;
- checking the effectiveness of the proposed organisational adjustments (on structures, processes, operational and commercial procedures) suggested for preventing the risk of non-compliance.

To carry out the above tasks, the Compliance Department employs two main operating procedures: internal consultancy to fulfil its primary institutional responsibility, and checking the compliance of procedures, contractual documents, individual transactions or other operations submitted to its attention.

Every year the Compliance Department submits a report to the Board of Directors, after consulting the Control & Risk Committee, and to the Auditing Board, regarding the activities carried out in the previous year, the action plan for the current year, and suggestions for minimising or eliminating the risk of noncompliance with the standards. This report is subsequently sent to the Banca d'Italia.

The Board of Statutory Auditors, the Control & Risk Committee, the Oversight Body (pursuant to Law 231/01) may also request the Compliance Department to formulate opinions, assessments and to perform specific checks on procedures potentially at risk of non-compliance.

The Compliance Department also contains the anti-money laundering unit which is responsible for preventing and dealing with the risk of money laundering and terrorism financing; the Compliance Officer is also the head of the anti-money laundering unit.
The activity connected to assessing and reporting suspicious transactions has instead been entrusted to the Central Director of the Administration, Organisation and IT Area.

• Internal Auditing Department

Audits within the Bank are the responsibility of the Internal Auditing Department, which reports directly to the BD or through the Internal Control Committee.

The Department's internal auditing activity is aimed at both controlling activities (a third level control activity), also by means of on-site audits to review trends for operations and risks, and evaluating the completeness, adequacy, functionality and reliability of the organisational structure and the other components of the overall internal control system. It advises General Management and the BD as regards possible improvements to risk management policies and measurement and control tool these involve. Based on the results of internal audits the Department makes recommendations to Bank bodies.

This Department is independent, acting autonomously and professionally in conformity with regulations in force and overall guidelines for the Bank's internal control system. It has access to all activities, including those outsourced; it follows up removal of discrepancies found in control operations and functions; it performs audits requested by the Oversight Body, in addition to making available information pertinent to legislative decree no. 231/01.

The Internal Audit Department submits the audit plan annually to the BD (or through the Control and Risk Committee, and to the Board of Auditors, also as the Oversight Body as per legislative decree no. 231/01), bearing in mind the inherent risks in the corporate business processes. It also submits annually an annual report on the previous year's activity outlining the verifications carried out, the results achieved, the weak points detected with suggestions for measures to be adopted to remove them.

This report is also sent to the Bank's independent auditing firm.

The Department periodically reports the results of the inspections to the Board of Directors via the Control and Risk Committee; also in the role of Oversight Body as per law 231/01, it periodically submits the results of the inspections carried out and the relative assessments to the Board of Statutory Auditors.

SPREADING AWARENESS OF RISK

Banca UBAE attaches particular importance to spreading awareness of risk within the organisational structure and, to do so, provides internal training aimed at all staff to ensure they are continuously updated on external regulatory changes and to improve the skills required to carry out their duties confidently and efficiently.

In 2019, several training courses were organised concerning national and international regulations of particular relevance for the Bank's operations with particular reference to the Internal Audit System (IAS/IFRS) financial statements, anti-money laundering, corporate finance, oversight reports, safety of workers, IT security, and the new rules and procedures required by accounting standard IFRS9.
Participation varied between 75% and 85% of the total workforce according to the specific skills of each organisational unit.

Furthermore, from a procedural viewpoint, alert systems are provided that promptly inform staff about new external regulations that could have an impact on the Bank's operations, as well as internal reporting systems aimed at providing indications – to the various units involved – on service communications regarding the publication of new operating procedures or their implementation, as well as informing the staff about any changes to the Bank's organisational structure.

PREMISE

As we know, the supervisory regulations provide for selective differentiation of the methodologies for calculating capital requirements for market, credit (including counterparty risk) and operational (Pillar I) risks, based on the size and operational complexity of the banks and the assessments of the Oversight Authority.

Banca UBAE has therefore adopted the "standard" method for calculating the requirement for credit risk and market risk and the Basic Indicator Approach (BIA) for calculating operational risks.

For the purposes of the "prudential control process" (ICAAP - Internal Capital Adequacy Assessment Process), individual banks must internally evaluate the overall adequacy of their capital with respect to other types of risk, not considered in the calculation of the capital requirements envisaged by Pillar I of the prudential regulation.

The whole process is based on a principle of proportionality, according to which the risk management procedures, the internal control mechanisms, the economic capital assessment methodologies as well as the frequency and intensity of the review by the Oversight Body, depend on the nature, size and complexity of the activity carried out by each bank.

For this reason, Banca d'Italia has foreseen, for the purposes of applying the legislation on Pillar II, a division of banks and intermediaries into three groups.

In particular, Banca UBAE falls into the "third group", characterized by banks not belonging to the first group (banks with systemic relevance) or to the second group (banks authorized to use internal models or having assets in excess of € 4 billion). The banks included in the third group adopt simplified methodologies for the calculation and assessment of "other risks" to be considered in the context of Pillar I[3].

It is to be considered that, for the concentration risk per counterparty or for groups of connected counterparties and for the interest rate risk on the banking book, the legislation proposes a calculation method that translates into the identification of "additional" capital requirements compared to the regulatory requirements of Pillar II.

3 For the other "quantifiable" risk, namely the liquidity risk, the provision of an additional capital requirement is not envisaged but the implementation of a management system that includes the construction of a maturity ladder, the conduct of stress tests and the definition of an internal policy and a contingency funding plan.

Furthermore, as early as 2012, in order to take into account its particular operations most pushed towards the countries with the highest risk, Banca UBAE introduced a new additional capital requirement in the context of Pillar II, albeit not required by law, to cover country risk . In order to consider all the relevant risks for the Bank, a further capital requirement has been introduced to cover the geosectorial concentration risk, with the aim of quantifying the risk deriving from the concentration of the Bank's loans to certain macro-sectors economic. Finally, in the light of the current economic context, starting from 2017, the Bank has deemed it appropriate to consider for capital adequacy purposes also an additional capital absorption against the strategic risk estimated according to an internal calculation methodology. The activity conducted as part of the prudential control process is reported annually to the Oversight Authority through the ICAAP report. The report relating to the data as at 31 December 2019 will be sent to Banca d'Italia by April 2020.

As regards compliance with disclosure obligations to the public of data and information regarding exposure to individual risk categories (Pillar III), the Bank will publish the qualitative and quantitative information tables on the corporate website (Financials area) within the deadlines for publication of the financial statements.

SECTION 1 - CREDIT RISK

QUALITATIVE INFORMATION

1. General aspects

The credit risk monitoring and management policies in Banca UBAE are defined by a specific internal policy, approved by the Board of Directors in 2018, which deals with:

- governance in the management area, roles and responsibilities of corporate bodies and offices within the credit risk management process;
- during the risk identification and measurement phase, the process of taking on risk in terms of both preliminary investigations and operational mandates for assignments;
- in the risk monitoring phase, the process of monitoring credit performance and the internal limits of risk monitoring;
- during the risk management phase, the process of identifying impaired credit exposures and the process of managing, classifying and evaluating them;
- the internal information flows between the corporate functions (horizontal flows) and to the corporate bodies (vertical flows), as well as towards the Oversight Authority.

Banca UBAE's mission is to promote and develop any type of financial, commercial, industrial and economic relationship in the international arena. The Bank's activity is aimed primarily, though not exclusively, at supporting relations between Mediterranean and Middle East countries with Europe, as well as between them and the rest of the world.
Compliance with this mission, consolidated in over 40 years of activity in favour of its customers, entails the adoption of credit selection and disbursement policies based on rigorous professional criteria.

In particular, UBAE favours the financing of commercial operations to and from countries of economic interest, with banks and companies, residents and nonresidents as beneficiaries. The commercial nature of the operations financed lies in the technical forms adopted and in the overall assessment of the beneficiary's activity.

The Board of Directors establishes individual exposure limits for certain countries and for technical forms, based on criteria of sound and prudent management.

The measurement of internal capital against credit risk is carried out by applying the standard method as required by current prudential legislation. Furthermore, with a view to stress testing, scenario analyses are carried out simulating the impact in terms of the capital requirement generated by certain information shocks such as the deterioration of the domestic economic situation or the worsening of the creditworthiness for counterparties resident in certain countries or operating in defined economic sectors.

2. Policies for managing credit risk

2.1 Organisational aspects

The credit risk assumption policies in Banca UBAE are approved by the Board of Directors, which establishes:

- the corporate bodies delegated to grant the assignments and the related powers;
- the process of selecting and evaluating credit lines;
- the risk monitoring and control process, also in relation to risk concentration regulations.

The decision-making powers in Banca UBAE are divided into a system of delegations based on the type and amount of risk to be assumed; the main departments involved in the risk control and mitigation processes are the Credit Analysis and Investigation Department, the Credit Performance Control Department and the Risk Management Department.

The internal policy governing the credit risk management process and in particular of impaired loans was approved by the 247th BoD on 31 August 2018, and ratified in some of its variations by the 250th BoD on 10-11 December 2018 and, during 2019, it was subject to review to take into account the first operational applications, the impact of non-performing positions in terms of NPL strategy, as well as the need to integrate this regulatory framework with the Bank's Recovery Plan. The project relating to Large Exposure regulations applied to Shadow Banking Entities (SBE) and the project to adapt to the international accounting standard IFRS9 were closely connected to this area, which introduced a concept of staging of counterparties as well as determination of impairment according to the specific counterparty and the technical form of exposure, moving from an "incurred losses" approach to an "expected losses" approach based on forward-looking risk data (PD and LGD).

In the Pillar I area, the Risk Management Department is responsible for monitoring the capital requirement for credit risk and, on the basis of the data communicated quarterly to the Supervision by sending the risk matrix, it submits to the Risk Committee, the Control Committee and Risks and to the BoD a quarterly reporting concerning capital adequacy. It also deals, for ICAAP purposes, with formulating stress testing hypotheses to be submitted to the Risk Committee and estimating the internal capital prospectively on the basis of budgeting data. As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for credit risk; the results of the analyses carried out are periodically reported to the Risk Committee, the advisory committees and the Board of Directors. In addition, consistency opinions with the RAF are formulated by the Risk Manager for the most significant operations (OMR).

The Department receives oversight reports in the field of large exposures and any reports in the event of non-compliance with the lending limit, assesses the trend and the incidence over time of the positions classified as "major risks" and prepares specific reporting for corporate bodies.

2.2 Systems for managing, measuring and checking

Credit assessment and processing department

Within the credit process, the preliminary phase represents the moment in which the acquisition, processing and control of all the documentation necessary for the assessment of the creditworthiness of the counterparties takes place.
The investigation has as objectives:
- verification of the correctness of the corporate and financial reporting documents presented by the requesting counterparty;
- assessment of creditworthiness;
- verification of the consistency of the request for renewal and/or variation of the credit line or of a new credit line, with the Bank's objectives and needs identified during the analysis;
- verification of the consistency of the technical forms requested with what was previously decided for the same counterparty;
- verification of compliance with the regulations in force (Civil Code and Consolidated Banking Law - T.U.B.) regarding obligations envisaged for bank representatives (Directors, Statutory Auditors and General Manager);
- identification of the groups of customers connected for the purposes of risk concentration analysis.
- identification of connected subjects pursuant to Circular no. 263/2006 - Title V Chapter 5;
- registration of the approved credit lines in the Bank's IT system, in order to report the credit lines granted to the Central Credit Register.

The investigation process ends with the formulation of a technical opinion on the reliability of the applicant and with the assessment of the risks associated with the investment transaction.

Once this reliability opinion has been established, to which must be added the considerations signed by the Head of the Credit and Control Department and the Head of the Credit and Risk Area, and having prepared the loan proposal to be submitted upon approval of the delegated bodies in agreement with the Head of the Credit and Risk Area which supervises and controls the overall process – the Credit Assessment and Processing Department identifies the deliberating body to which to send the proposal on the basis of the delegation system established by the Board of Directors.
The Credit Analysis and Investigation Department also informs the BoD quarterly of the operations carried out by all the other deliberating bodies.

The flow of all the activities described above is governed by a homogeneous system of internal rules that governs its performance in every phase, from the initial request presented by the counterparty to approval by the competent delegated body.

Technically, all risk analysis activities are carried out by the Credit Analysis and Investigation Department with the aid of a series of IT tools:

- internal models for the reclassification of the economic-financial information of each counterparty that ensure a homogeneous analysis of the data and an absolutely "super partes" technical control;
- internal calculation system for all customers carried out through specific software provided by Moody's (RiskCalc procedure) in order to assign each counterparty to homogeneous internal risk classes by providing the related PD - Probability of Default (quantitative and qualitative);
- verification of harmful events, hypo-cadastral surveys on the assets of the guarantors, and sectoral comparisons by consulting the most reliable national and international info-providers (CERVED, DUN & BRADSTREET, etc);
- Country Risk Analysis through collaboration with the ECONOMIST INTELLIGENCE UNIT (EIU provides monthly reports and country ratings).

Credit Performance Check

When monitoring credit performance, the department responsible for this, with the support of the relevant Italian and foreign Commercial Sectors, compiles and updates a list of risk positions to be kept under observation, based on information available from external sources (risk centres, prejudicial acts, press reports), and internal sources (e.g. reports produced by the application for performance monitoring, reports from the competent Italian and foreign commercial sectors concerning specific countries and/or economic sectors, etc). In the case of updated information or upon request, the Heads of the Italian and foreign Commercial Sectors will inform the Credit Performance Control Department of the reasons for the anomalies found on the reported positions and possibly on the actions taken to mitigate credit risk.

The Credit Performance Control Department reports monthly to the General Management, to the Area, Management and Commercial Sector Managers in Italy and abroad. If it deems it appropriate, and in any case in coincidence with events that may lead to an objective deterioration of the possibilities of partial or full recovery of the credit exposure, the Department proposes to the General Manager the reclassification of the position at risk as a deteriorated position (probable default or non-performing) accompanied by any proposal for write-down.

As regards the anomalies found, in particular the verification of compliance with the credit limits granted by the deliberating bodies to the counterparties, the Credit Performance Control Department uses the reports produced by the Cedacri IT system in its verifications.
Furthermore, the same procedure, as a support in the credit control activity, is provided with a platform, called CQM - Credit Quality Manager, which has the aim of identifying the positions to be monitored and managing those in which the anomalies occur, where they have already been demonstrated, with the aim of controlling and minimising the Bank's credit risk (the platform allows customers to be divided into monitoring sub-portfolios according to the Bank's strategic guidelines).

Other information flows to which particular attention is paid, in order to process the necessary information for the management and the departments involved, are: the information present in the return list of the Risk Centre and the printout of the continuous checking ("past due") by the Cedacri IT system, together with those of the Organisational Development Department, for the monthly monitoring of related parties.

2.3 Methods for measuring expected losses

The accounting standard IFRS9, published by the IASB on 24 July 2014, was definitively endorsed by the European Commission on 22 November 2016. IFRS9 fully replaces IAS39 and therefore applies to all financial instruments classified in assets and in the liabilities of the balance sheet, modifying the classification and measurement criteria and the method of determining the impairment, as well as defining new rules for the designation of hedging relationships.
The application of IFRS9 became mandatory starting from 1 January 2018; in particular, from the first balance sheet, economic and financial reporting date after 1 January 2018 which is represented by the FINREP maturity referring to 31 March 2018.
The impact for banks and companies in the financial sector was particularly significant since – in the matter of impairment – the standard introduced the definition of provisions on the accounting plan on the basis of expected loss, already used in prudential regulation, instead of the actual loss (incurred loss) envisaged by IAS39, thereby causing a greater convergence between accounting and regulatory aspects.
The IFRS9 standard is structured into the following three macro-categories: classification & measurement (business model and SPPI test), hedge accounting (treatment of derivatives and hedging strategies) and impairment (staging and accounting provisions in terms of expected loss).

IMPAIRMENT – PERFORMING CREDITS (Stage 1 and Stage 2)

The most complex activity was that relating to the new "Impairment" process; essentially for each credit exposure, valued at amortised cost, a specific expected loss is calculated no longer according to the share of loss historically suffered by the bank, but according to the following formula:

$$\mathbf{ECL = EAD * PDFL * LGD_{FL}}$$

where:

- **ECL** (**Expected Credit Loss**): represents allocations for IFRS9 purposes
- **EAD** (**Exposure at Default**): corresponds to the existing utilisation on the reference date weighted by the credit conversion factor (CCF)
- **PD_{FL}** (**Probability of Default forward-looking**): represents the probability of default in the future, obtained by applying a macro-economic scenario to the **PDP_{IT}**
- **PD_{PIT}** (**Probability of Default point-in-tim**e): represents the probability of default by each individual counterparty, and is calculated according to balance sheet data, the country of residence, together with other qualitative aspects

- **LGDFL** (**Loss Given Default forward-looking**): represents the loss in the event of default, obtained by applying a macro-economic scenario to the **LDG$_{PIT}$**
- **LGD$_{PIT}$** (**Loss Given Default point-in-time**): represents the loss in the event of default calculated according to the nature of the exposure, and depends on the existence of real active guarantees (e.g. cash collateral) or personal guarantees (e.g. SACE).
- The Bank has the score and PDPIT data for each counterparty (processed by the Credit Analysis and Investigation Department during assignment and/or renewal) and LDGPIT data differentiated by debt seniority, by type of counterparty (bank or corporate) and by geographical area (Eurozone, US, MENA, Asia) and supplied by Moodys.
- For the purpose of calculating the expected loss, or the accounting provision, macroeconomic scenarios are applied to these risk parameters to allow their recalculation in a forward-looking perspective.

The Bank has customised macroeconomic models differentiated for the following geographical areas:

- Eurozone
- US
- MENA
- ASIA

IMPAIRMENT – NON-PERFORMING CREDITS (Stage 3)

The valuation methodology for non-performing loans – all classified in Stage 3 on the basis of the IFRS9 principle – is differentiated according to the status of impaired exposures.

Consequently, various evaluation methodologies are envisaged:

- **Evaluation of loans classified as "Impaired"** performed analytically by the Legal Department for all the positions thus classified.

  The analytical evaluation process is based on a judgment assigned to the position by the Legal Department, to be carried out periodically in order to allow the timely implementation in the Financial Statements of all events that may change the prospects for debt collection. In any case, the evaluation must be carried out in the following situations:

- on the occasion of the classification as non-performing (normally within 30 days of receipt of the complete documentation from the office responsible for the position);

- subsequently, whenever a new event occurs that may affect the prospects for recovery (e.g. change in the value of the assets on which a guarantee has been acquired, developments of the disputes in progress, information or data acquired and received, etc) and in any case at least once every six months.

- **Evaluation of loans classified as "Unlikely to Pay"** (UTP) in turn distinguished as follows:

    - analytical evaluation on a forfeitary basis applicable to positions whose amount is below a certain threshold (EAD < 500,000 euros);

    - analytical evaluation, applicable to positions whose amount is above a certain threshold (EAD > 500,000 euros).

- **Evaluation of loan positions as "Past Due"**, carried out analytically on a forfeitary basis using a statistical approach:

    The principles for determining the analytical value adjustments and the minimum percentages to be applied differ according to the severity of the classification, as defined by the internal credit risk policy.

The expected recovery values of the receivables must be estimated on the basis of an assessment of the ability of the debtors to meet the obligations assumed, measured in consideration of all the most recent information available, on the equity and economic situation of the customers and the value of any existing guarantees to protect the loans.

To proceed with the analytical evaluation of a counterparty, it is necessary to first define whether to evaluate it from a liquidation point of view, in the event that recovery is possible through the realisation of guarantees and/or the liquidation of the company's assets, or with a view to business continuity, where the assessment focuses on verifying the sustainability of corporate debt over time on the basis of estimated cash flows.

Rules of staging

As far as staging allocation is concerned, specific classification criteria are applied and for each stage and the legislation provides for a specific calculation methodology:

Stage 1 – past due amounts less than 30 days, performing and investment grade and speculative grade (rated from BB+ to B-) for which there is no significant deterioration in creditworthiness; write-downs calculated in terms of expected loss at 1 year (if exposure less than 1 year, the expected loss refers to the residual life);

Stage 2 – past due between 30 and 90 days, performing exposures classified as forborne, included in the watch list during credit performance control or for which there is a significant deterioration in creditworthiness (expressed in terms of downgrading two notches of the score class or increase in the PD above specific thresholds); write-downs calculated in terms of expected loss calculated over the entire residual life of the exposure (if more than 1 year, PD and forward LGD will be applied forward-looking lifetime);

Stage 3 – non-performing exposures (past due over 90 days, probable defaults and bad debts); write-downs calculated analytically in line with the current approach.

More specifically, the following cases are envisaged for the transition to stage 2:

- **Forborne – automatic transition**
- **Expired between 30 and 90 days – automatic transition**
- **Watching list** – anomaly detection according to specific indicators (AQR) or presence on the observation lists
- **Counterparties lacking scores and PD** – automatic transition
- **Significant deterioration of loan** – recorded in terms of % increase in PD compared to the original value. For each score class, an X parameter corresponding to a downgrade of 2 notches was defined (based on the average PD per score class).

The UBAE approach is to classify all counterparties in stage 1, including speculative grade counterparties (rated from BB + to B-), for which there is no significant deterioration in creditworthiness with respect to the time the relationship is entered into, with the exception of CCC - scored counterparties for which a direct classification in stage 2 will be called for unless it can be demonstrated that the pricing applied is in line with the estimated expected losses. As regards exposures in the form of securities, the solution adopted by the Bank provides for placement in stage 2 in the event of speculative grade issues (rating equal to or lower than BB+) for which there is a significant deterioration in credit.

The concept of significant credit deterioration is intended as a downgrade of two notches from the score origination. Therefore, the "low credit risk assumption" is envisaged only in the securities sector.

2.4 Methods for reducing credit risk

Credit risk mitigation techniques are currently governed by additional regulatory sources compared to the pre-existing ones; in particular, by Regulation (EU) no. 575/2013 and Directive 2013/36/EU on prudential supervision, both rules aimed at implementing in the European Union the rules defined by the Basel Committee for banking supervision (Basel 3).
In line with the objective of ensuring a clear and organic regulatory framework, Banca d'Italia Circular no. 285 of 17 December 2013 transposed and included the two aforementioned acts among the regulatory sources governing the matter.

The current regulatory framework has kept the distinction between real credit protection tools and personal credit protection tools.
In order to be eligible, collateral, which allows those who have the right to credit fulfilment on specifically identified assets or sums of money, must be included in the list of activities allowed by the aforementioned Regulation and precisely:

- cash deposits with the lending institution or similar instruments held by that institution;
- debt securities issued by administrations or central banks for which an assessment of the creditworthiness by an ECAI or by an export credit agency is available comparable to creditworthiness class 4 or higher;
- debt securities issued by banks or other entities for which an assessment of creditworthiness is available by an ECAI comparable to creditworthiness class 3 or higher;

- debt securities for which an assessment of the short-term creditworthiness of an ECAI comparable to creditworthiness class 3 or higher is available;
- equity instruments or convertible bonds;
- gold;
- securitization positions that have an external assessment of creditworthiness by an ECAI comparable to class of merit 3 or higher;
- debt securities issued by entities without credit assessment of an ECAI if these securities have stringent conditions (i.e. they are listed on recognised stock exchanges, qualified as first degree debt, the other issues of the institution are associated with the class of merit 3 or higher, etc);

Also allowed, only for the reciprocal cash balances between the lender and the counterparty, is the offsetting of mutual credits in the balance sheet.

Other types of real credit protection are:
- cash deposits or similar instruments with a third party;
- life insurance policies set up as a guarantee in favour of the lender;
- instruments issued by third parties which will be repurchased by such entities on request.

The protection of personal credit, consisting of legal commitments made by third parties, to fulfil the obligation towards the bank in the event of default of the principal, can be granted by subjects who are:

- central administrations and central banks;
- regional administrations or local authorities;
- multilateral development banks;
- international organisations when exposures to them are 0% weighted;
- certain bodies or entities or companies that meet the requirements of article 201 of Regulation (EU) no. 575/2013;
- central counterparties.
- Regulation 575/2013 does not include eligible personal guarantees, limiting itself to introducing a general principle of admissibility of these forms of credit protection.
- In the context of the above admissibility principle, only credit derivatives included in the category of personal guarantees are listed, i.e. credit default swaps, total return swaps, credit-linked notes.
- however, Banca UBAE does not acquire credit risk protection through the holding of these instruments.
- however, the Regulation identifies, for each type of guarantee, both real and personal, the requirements required for the purposes of its eligibility.

Real guarantees

A) OFF-SETTING BALANCE SHEET ITEMS:

Requisites:

- legal effectiveness and applicability in all relevant jurisdictions, even in the event of insolvency or bankruptcy of the counterparty;
- possibility for the lender to identify the assets and liabilities that fall under these agreements;
- surveillance and control of the risks associated with termination of protection;
- supervision and control of significant exposures on a net basis;

B) TYPICAL OFF-SETTING AGREEMENTS

Requisites:

- legal effectiveness and applicability in all relevant jurisdictions, even in the event of insolvency or bankruptcy of the counterparty;
- possibility for the non-defaulted party to terminate and close all transactions affected by the agreement in the event of default, even in the event of insolvency or bankruptcy of the counterparty;
- ability to offset profits and losses, so that only one net amount is due from one counterparty to another.

C) REAL FINANCIAL GUARANTEES

Requisites:

- Absence of a significant correlation between the creditworthiness of the debtor and the value of the collateral. For example, the securities issued by the debtor or by another associated entity of the group are not admitted as collateral;
- Applicability of contracts in all relevant jurisdictions.

Entities are also required to:

- Document the contract in the due forms and provide for an appropriate procedure for the prompt enforcement of the warranty;

- Check the risks arising from the use of guarantees;

- Have documented policies and practices regarding the types of guarantees accepted and the relative amount;

- Calculate the market value of the guarantees and re-evaluate them at least every six months and whenever they believe that a significant drop in market value has occurred;

- If the collateral is held by a third party, make sure that the holder separates it from its assets;

- Dedicate sufficient resources to control and monitor all the risks associated with the management of guarantees (e.g. risk of concentration towards particular types of activities used as collateral).

Real guarantees

D) REAL ESTATE GUARANTEES

Requisites:

- legal certainty and enforceability in all relevant jurisdictions and registration in the prescribed form;
- Compliance with the requirements for completing the warranty;
- Structure of the contract and the underlying legal documents such as to allow the prompt enforcement of the guarantee;
- Verification - by the institution - of the value of the property at least once a year for non-residential and once every three years for residential;
- The valuation of the property is reviewed when its value can be significantly reduced in relation to the general market prices and this revision is carried out by an expert who has the necessary qualifications;
- Institutions clearly document the types of residential and non-residential properties accepted and the associated credit policy;
- Institutions have procedures to ascertain that the real estate received as collateral is adequately insured against the risk of damage.

E) COMMERCIAL CREDITS

Requisites:

1. The legal mechanism through which guarantees are provided is solid, clear and effective;
2. The entities have a first-degree right of first refusal on the property pledged as guarantee;
3. Applicability of guarantee contracts in all relevant jurisdictions;
4. The institution's internal procedures ensure that the legal conditions are observed to declare the debtor's default and obtain the prompt enforcement of the guarantee;
5. In the event of default by the debtor, the institution has the right to assign trade receivables to other parties without the consent of the debtor concerned;

6. The institution has adequate procedures to assess the credit risk inherent in commercial credits;

7. The difference between the exposure and the value of the loans granted as collateral is able to ensure coverage of additional costs to be paid by the entity;

8. The trade receivables given as collateral by the debtor are diversified and not unduly correlated with the situation of the debtor;

9. The institutions do not use commercial credits towards subjects connected to the debtor;

10. Institutions have a documented procedure for the direct collection of payments on commercial credits in critical situations.

F) OTHER TYPES OF REAL GUARANTEES

Requisites of deposits with third parties:

1. The credit (deposit) of the debtor to the third party is explicitly pledged as collateral or given as a pledge in favour of the lending institution and this act is effective and enforceable in all competent jurisdictions, unconditional and irrevocable;

2. The third party has received notification of the guarantee or assignment in pledge;

3. As a result of the notification, the third party is able to make payments only to the lender.

Requisites of life insurance policies:

1. The life insurance policy is explicitly constituted as a guarantee or given as a pledge in favour of the lender;

2. The insurance company has received notification of the guarantee or assignment as a pledge and, consequently, cannot pay amounts without the consent of the lender;

3. The lender has the right to terminate the policy and to receive the redemption value in the event of the debtor’s default;

4. The lender body is informed of the eventual non-execution of policy payments by the owner;

5. Credit protection is provided for the entire duration of the loan;

6. The guarantee or assignment as a pledge is legally effective and enforceable in all relevant jurisdictions;
7. The surrender value (i) is declared by the company that provides life insurance and cannot

be reduced, (ii) is paid by the company that provides life insurance promptly upon request, (iii) cannot be requested without the prior consent of the institution;

8. The insurance company is subject to Directive 2009/138/EC (on the access and exercise of insurance activities) or to the supervision of a competent authority of a third country that applies prudential and regulatory provisions at least equivalent to those existing in the EU.

Personal guarantees

Requisites that are common to personal guarantees and credit derivatives:

1. Credit protection is direct and its size clearly defined and incontrovertible;

2. There are no clauses whose fulfilment is beyond the direct control of the lender which can:

    - Allow the protection provider to unilaterally cancel protection;
    - Avoid the obligation of the protection provider to make the payments due in the event of default by the principal debtor;
    - Avoid the obligation of the protection provider to make the payments due in the event of default by the principal debtor;
    - Allow the protection provider to shorten the duration of the protection granted.

3. The guarantee contract must be effective and enforceable in all relevant jurisdictions;

4. The institution is able to demonstrate to the competent authority that it has the appropriate tools to manage the potential concentration of risk, resulting from the use of personal guarantees and credit derivatives;

5. The entity complies with the contractual and legal provisions relating to personal guarantees.

<u>Additional requisites for personal guarantees:</u>

1. The lending institution has the right to immediately take recourse to the guarantor without the obligation of prior enforcement of the principal debtor;

2. The guarantee is explicitly documented;

3. The guarantee covers all payments to which the main debtor is obliged or, when certain payments are excluded from the personal guarantee, the lender has corrected the value of the guarantee in order to take into account the limitation of the coverage.

COUNTER-GUARANTEES FROM GOVERNMENTS AND OTHER PUBLIC SECTOR BODIES

Exposures protected by a personal guarantee, backed by one of the following entities, are considered as exposures protected by a personal guarantee provided by the counter-guarantor:

- central administrations or central banks;
- regional administrations or local authorities;
- public sector bodies;
- multilateral development banks.

3. Impaired credit exposure

Impaired credit exposure are divided into the following categories:

- Overdue and/or overdrawn impaired exposures: cash credit exposures which, at the reporting reference date, have been past or overdue for more than 90 days;
- Probable defaults (Unlikely To Pay): credit exposures for which the bank considers it unlikely that, without recourse to actions such as the enforcement of guarantees, the debtor completely fulfils (in principal and/or interest) the credit obligations. This evaluation is carried out independently of the presence of any past due and unpaid amounts (or instalments);
- Non-performing loans: the total of cash and off-balance sheet credit exposures to a person in a state of insolvency (even if not ascertained judicially) or in substantially comparable situations, regardless of any loss forecasts formulated by the Bank. Exposures whose anomalous situation is attributable to profiles pertaining to country risk are excluded.

For the purpose of staging allocation, non-performing exposures (NPL) fall within Stage 3 and are subject to analytical write-down as described in paragraph 2.3, also taking into account the minimum write-down levels envisaged by the credit policy for each class of impairment.

3.1 Management strategies and policies

The units responsible for the management of non-performing loans implement the actions defined by the internal policy in the presence of deterioration of the risk position with regard to: "i) type of executive procedure activated following the already experienced phases; ii) ready value of the guarantees; iii) criteria for estimating the recovery period and discounting rates of expected flows".

These interventions include all the activities carried out after the transition to the non-performing position which may lead, in the event of a change to nonperforming loans, also the revocation of the credit lines and the consequent forfeiture of the debtor from the benefit of the termination (where possible) of the relationships contracts with the customer.
These activities are aimed at protecting and recovering the Bank's credit positions, both through inter-judicial interventions internally conducted and with the use of judicial procedures activated through external lawyers.

The different stages of the process are remitted according to the credit classification:

- to the Credit Performance Control Department (assisted by the Commercial Development Area, by the Credit Survey Analysis Department as well as, in the case of legal implications, by the Legal Department);

- joint management, which includes members of the Commercial Area, one or more members of the Credit and Risk Area (in the case of debt restructuring involving several banks);

- to the Legal Department (in the case of bad debts or non-performing loans for which it is necessary).

These functions, in compliance with any resolutions made by the competent bodies and in accordance with the operational and reporting requirements envisaged, will impart the appropriate operational provisions aimed at implementing the interventions to be undertaken. If the aforementioned operational provisions are different from the recovery strategy defined in the resolution phase of transition to non-performing, the relationship manager must again request the approval of the new strategic direction from the structure and/or decision-making body competent as appropriate.

Dealing with expired positions and/or over-running and impaired positions

The individual exposures are identified as past due and/or over-running:

- other than those classified as bad debts and/or probable defaults;
- expired or past due for more than 90 days on the reporting date, the higher of the following two values is equal to or greater than a materiality threshold of 5%:
    - average of the past due and/or overdue portions over the entire exposure recorded on a daily basis in the previous quarter;
    - past due and/or overdue portion of the entire exposure referring to the reporting reference date;
- expired or past due for over 180 days at the reporting reference date. All positions in this state will be placed in a state of probable default unless adequate formalised reasons are given.

Overdue and/or overdrawn impaired exposures are monitored by the Credit Performance Control Department, which defines the classification (also on the indication of the Commercial Area) and the provision based also on the technical analyses provided by the SAIF and taking into account the minimum write-down percentages defined by the Bank.

The assessments relating to classification and provisions are sent to the deliberating body.

Dealing with "unlikely to pay" positions

As required by law, for the classification among probable defaults it is not necessary to wait for the explicit symptom of anomaly (failure to repay) where there are elements that imply a risk of default by the debtor. The aggregate of cash and off-balance sheet exposures to the same debtor who is in the above situation is called "probable default", unless the conditions for classifying the debtor among bad debts do not exist.

The condition of "improbability that, without recourse to actions such as the enforcement of the guarantee, the debtor completely fulfils the obligations" is deemed satisfied when events specifically required by law occur, or events subject to internal assessment by the Bank.
Similarly to what is provided for the past due exposures referred to in the previous paragraph, UTPs are also monitored by the Credit Performance Control Department, which proposes their classification (also on the indication of the Commercial Area) and the provision to be made based also on the technical analyses provided by the SAIF and taking into account the minimum write-down percentages defined by the Bank.

Daling with impaired positions

The category of bad debts includes all receivables from customers who face serious and non-transitory economic and financial difficulties. The necessity of the transfer may also derive from extrajudicial and prejudicial events towards the customer and/or the guarantors, from the risk of consolidation of mortgages registered by other credit institutions, from judicial actions aimed at decreasing the capital guarantee provided by the Customer and/or by the guarantors.
For the purposes of non-performing classification, therefore, the existence of any guarantees, real or personal, placed in defence of the loans is disregarded. The identification of the positions that must be "possibly" included in the "bad debts" sector involves the following subjects:

The assessments relating to classification and provisions are sent to the deliberating body.

- The Sales Department / Sector operator who owns the report on the basis of first-level performance monitoring activity;
- the Credit Performance Control Department, based on anomaly reports and as part of the systematic activity of monitoring credit risk on the overall portfolio of the Bank.

Once the position to be classified as non-performing has been identified, the Credit Performance Control Department carries out a prior assessment of the opportunity and the presence of the minimum requirements for a change of status.

The proposal for changeover to non-performing loans, containing the reasons for the change in the status of the position as well as an indication of the provision to be made to a minimum, is signed by the Head of the Credit Performance Control Department. This proposal is also signed by the Credit and Risk Area Manager and sent to the Commercial Development Area Manager for information. Subsequently, the proposal is sent to the General Manager for approval.
Once the transfer of status of the "non-performing" position has been approved, the Commercial Management originally owner of the relationship, the SAIF, the Credit Performance Control Department and the General Secretariat transmit the file, with all the documentation describing the analyses previously carried out attached, to the Legal Department, which is responsible for the administration and management of positions classified as bad loans.

3.2 Write-Offs

As specified by IFRS9, the write-off constitutes an event of partial or full cancellation of the credit exposure and may or may not entail the legal waiver of credit recovery.
After a resolution by the Board of Directors, the Bank proceeds to the removal of credit exposures if valid and objective elements are identified to support the assessment of the irrecoverable nature of the credit and/or of the economic nonconvenience to carry out the recovery steps. The partial excerpt can be justified if there are elements to demonstrate the debtor's inability to repay the full amount of the debt.

3.3 Impaired financial assets, acquired or originated

Impaired financial assets acquired or originated are those exposures that have deteriorated on the initial recognition date.
In its business model, the Bank does not envisage the acquisition of exposures of this kind, while, after internal analysis, the disbursement of "new finance" to impaired counterparties is permitted as part of restructuring agreements between the debtor and a pool of banks.
In this case, the internal structures which, as described in the following paragraph, with transversal responsibilities follow the restructuring agreements, will prepare a proposal for the provision of "new finance" to be submitted for approval by the Board of Directors. These exposures will be configured as non-performing in compliance with the classification attributed to the debtor and will be subject to the write-down rules specific to the assigned impairment class.

4. Financial assets subject to commercial renegotiations and exposures subject to concessions

The Bank identifies and classifies, pursuant to Banca d'Italia provisions, forborne exposures, that is, the loans (performing or impaired) subject to concessions (forbearance) by the Bank. The forbearance measures constitute changes to the original contractual conditions of the credit line that the bank grants to the corporate customer.
These forbearance measures may concern performing customers in financial difficulty (forborne performing exposures) or customers classified in a deteriorating state (non performing exposures with forbearance measures).

In detail:
- **Forbearance non performing**: the exposure must remain for at least a year ("cure period") after which it is released from the status of non performing;
- **Forbearance performing**: exposure deriving from the previous class, from which the exposure can exit towards performing status after 2 years ("probation period").

Agreements are not considered concessions – reached between the debtor and a pool of creditor banks – thanks to which the existing credit lines are temporarily "frozen" prior to formal restructuring.

The timing in the state of forborne and the exit mechanisms are carefully regulated. If a customer becomes a "non-performing forborne", 36 months (12 months for the so-called "cure period" and 24 months for the so-called "probation period") are required before returning to performing status without reserve. In other cases of performing forborne, the application of the above or the definition of a permanence in the classification may be for a shorter period.

From an accounting standpoint, IFRS9 requires that if a forbearance measure relating to a performing credit line is approved, this credit line is allocated to Stage 2.

In the process of managing and classifying problematic credit to customers involving several banks in the presence of a request for a moratorium and/ot restructuring of credit, internal information is prepared in order to acknowledge it by the appropriate commercial department or sector. Subsequently, the Credit Performance Control Department will propose the reclassification "under observation" and the immediate blocking of operations (the credit line is made inoperative) to the General Manager, pending a deeper analysis.

Until the restructuring agreements are formalised, subject to the resolution of the competent bodies, negotiations for any moratoriums will be conducted both by the Head of the Commercial Development Area and by one or more members of the Credit and Risk Area (within credit analysis and investigation and in the legal field).
Once the relative proposal has been submitted (in the usual way) and approved by the decision-making bodies, the management of the position will be handed over solely to the Commercial Development Area.

QUANTITATIVE INFORMATION

Credit quality

A.1 Performing and non-performing credit positions: amounts outstanding, writedowns, variations and economic distribution

A.1.1 Distribution of financial assets by portfolio and credit quality (book value)

PORTFOLIOS/QUALITY		IMPAIRED	PROBABLE DEFAULTS	MATURED EXPOSURES DETERIORATED	MATURED EXPOSURES NOT DETERIORATED	OTHER EXPOSURES NOT DETERIORATED	TOTAL
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	4,209	30,372	363	4	1,701,099	**1,736,047**
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		2,259			3,409	**5,668**
3	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE						
4	OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE						
5	FINANCIAL ASSETS IN THE PROCESS OF BEING SOLD						
6	ATTIVITÀ FINANZIARIE IN CORSO DI DISMISSIONE						
TOTAL 31.12.2019		4,209	32,631	363	4	1,704,508	1,741,715
TOTAL 31.12.2018		813	31,185	2,532	15,581	1,803,384	1,853,495

At 31 December 2019, past-due unimpaired exposures amounted to a total of Euro 0,4 million relating to positions that were correctly returned in the early days of January 2020.

At 31 December 2018, exposures subject to concessionary measures (known as forbearance exposures) amounted to Euro 11,6 million, entirely attributable to the portfolio of "loans to customers"; more information on these exposures can be found in table A.1.7.

A.1.2 Distribution of financial assets by portfolio and credit quality (gross and net values)

	PORTFOLIOS/ QUALITY	IMPAIRED				NOT IMPAIRED			TOTAL (NET EXPOSURE)
		GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	OVERALL PARTIAL WRITEOFFS (*)	GROSS EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	122,008	87,064	34,944	278	1,723,779	22,676	1,701,103	**1,736,047**
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	5,258	2,999	2,259		3,576	167	3,409	**5,668**
3	FINANCIAL ASSETS DESIGNATED AT FAIR VALUE								
4	OTHER FINANCIAL ASSETS NECESSARILY MEASURED AT FAIR VALUE								
5	FINANCIAL ASSETS IN THE PROCESS OF BEING SOLD								
TOTAL 31.12.2019		127,266	90,063	37,203	278	1,727,355	22,843	1,704,512	**1,741,715**
TOTAL 31.12.2018		111,936	77,406	34,530		1,833,747	14,810	1,818,937	**1,853,467**

PORTFOLIO/CREDIT QUALITY		ASSETS OF LOW-QUALITY CREDIT		OTHER ASSETS
		MINUS	NET EXPOSURE	NET EXPOSURE
1	FINANCIAL ASSETS HELD FOR TRADING			10,268
2	HEDGING DERIVATIVES			
TOTAL 31.12.2019				10,268
TOTAL 31.12.2018				15,177

* Value to be displayed for information purposes

Among the unimpaired assets, there are no exposures subject to renegotiation under collective agreements.
Impaired assets include exposures to Italian corporate entities in the construction sector.

A.1.3 Distribution of financial assets by range of overdue amounts (book value)

	PORTFOLIO/RISK STAGES	FIRST STAGE			SECOND STAGE			THIRD STAGE		
		FROM 1 DAY TO 30 DAYS	FROM OVER 30 DAYS TO 90 DAYS	OVER 90 DAYS	UP TO 30 DAYS	FROM OVER 30 DAYS UP TO 90 DAYS	OVER 90 DAYS	UP TO 30 DAYS	FROM OVER 30 DAYS UP TO 90 DAYS	OVER 90 DAYS
1	FINANCIAL ASSETS VALUED AT AMORTISED COST				3	1			2,980	16,104
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY									2,259
3	FINANCIAL ASSETS HELD FOR SALE									
TOTAL 31.12.2019					3	1			2,980	18,363
TOTAL 31.12.2018		1,808,367			17,968	675	4,997		7,554	13,934

A.1.4 Financial assets, commitments to disburse funds and financial guarantees issued: changes in total value adjustments and total provisions

REASONS/RISK STAGES	TOTAL VALUE ADJUSTMENTS													FIRST STAGE	SECOND STAGE	THIRD STAGE	TOTAL
	ASSETS INCLUDED IN FIRST STAGE				ASSETS INCLUDED IN SECOND STAGE				ASSETS INCLUDED IN THIRD STAGE				OF WHICH: IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED				
	FINANCIAL ASSETS VALUED AT AMORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACTON TOTAL PROFITABILITY	FINANCIAL ASSETS HELD FOR SALE	OF WHICH : COLLECTIVE WRITE DOWNS	FINANCIAL ASSETS VALUE DATA MORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	FINANCIAL ASSET SHELD FOR SALE	OF WHICH: COLLECTIVE WRITE DOWNS	FINANCIAL ASSETS VALUE DATA MORTISED COST	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	FINANCIAL ASSET SHELD FOR SALE	OF WHICH: COLLECTIVE WRITE DOWNS					
INITIAL OVERALL ADJUSTMENTS	(12,048)	(731)		(12,779)	(1,793)	(210)		(2,003)	(73,958)	(3,168)	(77,126)			(1,890)	(1,875)	(2,207)	(97,880)
CHANGES IN INCREASE FROM FINANCIAL ASSETS ACQUIRED OR ORIGINATED																	
CANCELLATIONS OTHER THAN WRITE-OFFS																	
NET VALUE ADJUSTMENTS/WRITE-BACKS FOR CREDIT RISK (+/-)	5,878	731		6,518	(14,623)	42		(14,581)	(13,105)	169	(12,936)			906	1,247	(1,288)	(20,134)
CONTRACTUAL CHANGES WITHOUT CANCELLATIONS																	
CHANGES IN THE ESTIMATION METHODOLOGY																	
WRITE-OFFS NOT DIRECTLY RECOGNIZED IN THE INCOME STATEMENT																	
FINAL OVERALL ADJUSTMENTS	(6,261)			(6,261)	(16,416)	(168)		(16,5843)	(87,063)	(2,999)	(90,062)			(984)	(628)	(3,495)	(118,014)
RECUPERATION RECOVERIES ON FINANCIAL ASSETS SUBJECT TO WRITE-OFF																	
WRITE-OFFS RECORDED DIRECTLY IN THE INCOME STATEMENT																	

A.1.5 Financial assets, commitments to disburse funds and financial guarantees issued: transfers between the various stages of credit risk (gross and nominal values)

PORTFOLIOS/RISK STAGES		GROSS VALUE / NOMINAL VALUE					
		TRANSFERS BETWEEN FIRST STAGE AND SECOND STAGE		TRANSFERS BETWEEN SECOND STAGE AND THIRD STAGE		TRANSFERS BETWEEN FIRST STAGE AND THIRD STAGE	
		FROM FIRST STAGE TO SECOND STAGE	FROM SECOND STAGE TO FIRST STAGE	FROM SECOND STAGE TO THIRD STAGE	FROM THIRD STAGE TO SECOND STAGE	FROM FIRST STAGE TO THIRD STAGE	FROM THIRD STAGE TO FIRST STAGE
1	FINANCIAL ASSETS VALUED AT AMORTISED COST	61,940	13,664	14,276		2,705	
2	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY						
3	FINANCIAL ASSETS HELD FOR SALE						
4	COMMITMENTS TO DISBURSE FUNDS, AND FINANCIAL GUARANTEES ISSUED	132,239	168,669	915			5,000
TOTAL		**194,179**	**182,333**	**15,191**		**2,705**	**5,000**

A.1.6 Cash and off-balance sheet credit exposures to banks: gross and net values

The cash exposures include all the cash financial assets held by customers, whatever their accounting allocation portfolio (trading, financial assets at amortised cost, financial assets measured at fair value with impact on overall profitability, financial assets held for sale).
Off-balance sheet exposures include all financial transactions other than cash transactions that involve the assumption of a credit risk, whatever the purpose of such transactions.

TYPE OF EXPOSURES / VALUES		GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS
		IMPAIRED	NONIMPAIRED			
A	**CREDIT EXPOSURES FOR CASH**					
A)	IMPAIRED	4,554		4,188	366	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
C)	OVERDUE IMPAIRED EXPOSURES	452		90	362	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
D)	OVERDUE NON-IMPAIRED EXPOSURES					
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON-IMPAIRED EXPOSURES		784,679	5,415	779,264	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		5,006	784,679	9,693	1.788	
B	**OFF-BALANCE SHEET CREDIT EXPOSURES**					
A)	IMPAIRED					
B)	NON-IMPAIRED		6,974,123	1,223	1.055	
TOTAL B			6,974,123	1,223	6,972,900	
TOTAL (A+B)		5,006	7,758,802	10,916	7,752,892	

A.1.7 Cash and off-balance sheet exposures to customers: gross and net values

TYPE OF EXPOSURES / VALUES		GROSS EXPOSURE		TOTAL VALUE ADJUSTMENTS AND TOTAL PROVISIONS	NET EXPOSURE	OVERALL PARTIAL WRITE-OFFS
		IMPAIRED	NON IMPAIRED			
A	**CREDIT EXPOSURES FOR CASH**					
A)	IMPAIRED	42,102		38,259	3,843	279
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
B)	PROBABLE DEFAULTS	80,156		47,526	32,630	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	23,887		12,241	11,646	
C)	OVERDUE IMPAIRED EXPOSURES	2				
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS				2	
D)	OVERDUE NON-IMPAIRED EXPOSURES		5		5	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
E)	OTHER NON-IMPAIRED EXPOSURES		943,089	17,846	925,243	
	- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS					
TOTAL A		122,260	943,094	103,631	961,723	279
B	**OFF-BALANCE SHEET CREDIT EXPOSURES**					
A)	IMPAIRED	18,469		3,495	16,437	
B)	NON-IMPAIRED		1,203,371	389	1,202,982	
TOTAL B		18,469	1,203,371	3,884	1,219,419	
TOTAL (A+B)		140,729	2,146,465	107,515	2,181,142	279

A.1.8 Cash credit exposures to banks: movement of gross impaired exposures

		REASONS/CATEGORIES	IMPAIRED	PROBABLE DEFAULTS	OVERDUE IMPAIRED EXPOSURES
A		**GROSS INITIAL EXPOSURE**	**4,468**		**2,620**
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED			
B		**INCREASING CHANGES**	**86**		**770**
	B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES			453
	B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
	B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES			
	B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	B5	OTHER INCREASING CHANGES	86		317
C		**DECREASING CHANGES**			**2,938**
	C1	EXITS TO NON-IMPAIRED EXPOSURES			2,938
	C2	WRITE-OFFS			
	C3	RECEIPTS			
	C4	INCOME FROM SALES			
	C5	LOSSES FROM SALES			
	C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES			
	C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	C8	OTHER DECREASING CHANGES			
D		**FINAL GROSS EXPOSURE**	**4,554**		**452**
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED			

The total value adjustments on non-performing exposures subject to concessionary measures concern loans to companies in the probable default category.

A.1.9 Cash credit exposures to customers: movement of gross impaired exposures

		REASONS/CATEGORIES	IMPAIRED	PROBABLE DEFAULTS	OVERDUE IMPAIRED EXPOSURES
A		**GROSS INITIAL EXPOSURE**	**19,943**	**85,003**	**2**
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED			
B		**INCREASING CHANGES**	**22,538**	**18,021**	**14,277**
	B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES		2,862	14,277
	B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED			
	B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	22,432	14,276	
	B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	B5	OTHER INCREASING CHANGES	106	883	
C		**DECREASING CHANGES**	**279**	**22,868**	**14,277**
	C1	EXITS TO NON-IMPAIRED EXPOSURES			
	C2	WRITE-OFFS	279		
	C3	RECEIPTS		414	
	C4	INCOME FROM SALES			
	C5	LOSSES FROM SALES			
	C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES		22,432	14,275
	C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS			
	C8	OTHER DECREASING CHANGES		22	
D		**FINAL GROSS EXPOSURE**	**42,102**	**80,156**	**2**
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED			

A.1.9 (bis) Cash credit exposures to customers: trends in gross exposures subject to separate credit ratings

		REASONS/CATEGORIES	EXPOSURES SUBJECT TO IMPAIRED CONCESSIONS	OTHER EXPOSURES SUBJECT TO CONCESSIONS
A		**GROSS INITIAL EXPOSURE**	**23,436**	
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED		
B		**INCREASING CHANGES**	**883**	
	B1	RE-ENTRY OF NON-IMPAIRED EXPOSURES	154	
	B2	RE-ENTRY OF IMPAIRED FINANCIAL ASSETS ACQUIRED OR ORIGINATED		
	B3	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES		
	B4	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS		
	B5	OTHER INCREASING CHANGES	729	
C		**DECREASING CHANGES**	**432**	
	C1	EXITS TO NON-IMPAIRED EXPOSURES		
	C2	WRITE-OFFS		
	C3	RECEIPTS		
	C4	INCOME FROM SALES		
	C5	LOSSES FROM SALES	414	
	C6	TRANSFER TO OTHER CATEGORIES OF IMPAIRED EXPOSURES		
	C7	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS		
	C8	OTHER DECREASING CHANGES	18	
D		**FINAL GROSS EXPOSURE**	**23,887**	
		- OF WHICH: SOLD EXPOSURES NOT CANCELLED		

A.1.10 Non-cash exposures to banks: changes in total value adjustments

REASONS/CATEGORIES			IMPAIRED		PROBABLE DEFAULTS		OVERDUE IMPAIRED EXPOSURES	
			TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A	**OVERALL INITIAL ADJUSTMENTS**		**4,127**				**90**	
	OF WHICH: SOLD EXPOSURES NOT CANCELLED							
B	**INCREASING CHANGES**		60				90	
	B1	VALUE ADJUSTMENTS ON IMPAIRED ASSETS ACQUIRED OR ORIGINATED						
	B2	OTHER VALUE ADJUSTMENTS						
	B3	LOSSES FROM SALES						
	B4	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES						
	B5	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	B6	OTHER INCREASING CHANGES	60				90	
C	**DECREASING CHANGES**						90	
	C1	VALUE GAINS DUE TO RE-VALUATION						
	C2	VALUE RECOVERIES						
	C3	PROFIT FROM SALES						
	C4	WRITE-OFFS						
	C5	TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES						
	C6	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	C7	OTHER DECREASING CHANGES					90	
D	**OVERALL FINAL ADJUSTMENTS**		**4,187**				**90**	
	OF WHICH: SOLD EXPOSURES NOT CANCELLED							

A.1.11 Credit exposures for non-performing loans to customers: changes in total value adjustments

		REASONS/CATEGORIES	IMPAIRED		PROBABLE DEFAULTS		OVERDUE IMPAIRED EXPOSURES	
			TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS	TOTAL	OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS
A		**OVERALL INITIAL ADJUSTMENTS**	**19,370**		53,818	11,552		
		OF WHICH: SOLD EXPOSURES NOT CANCELLED						
B		**INCREASING CHANGES**	19,167		9,617	896	428	
	B1	VALUE ADJUSTMENTS ON IMPAIRED ASSETS ACQUIRED OR ORIGINATED						
	B2	OTHER VALUE ADJUSTMENTS	104		1,922	17		
	B3	LOSSES FROM SALES						
	B4	TRANSFERS FROM OTHER CATEGORIES OF IMPAIRED EXPOSURES	19,063		4,283			
	B5	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	B6	OTHER INCREASING CHANGES			3,412	879	428	
C		**DECREASING CHANGES**	278		15,909	207	428	
	C1	VALUE GAINS DUE TO RE-VALUATION						
	C2	VALUE RECOVERIES			207	207		
	C3	PROFIT FROM SALES						
	C4	WRITE-OFFS	278					
	C5	TRANSFERS TO OTHER CATEGORIES OF IMPAIRED EXPOSURES			15,702		428	
	C6	CONTRACTUAL CHANGES WITHOUT CANCELLATIONS						
	C7	OTHER DECREASING CHANGES						
D		**OVERALL FINAL ADJUSTMENTS**	**38,259**		47,526	12,241		
		OF WHICH: SOLD EXPOSURES NOT CANCELLED						

A.2 Classification of financial assets, of commitments to disburse funds, and financial guarantees issued on the basis of external and internal ratings

A.2.1 Distribution of financial assets, commitments to disburse funds, and financial guarantees issued: for external rating classes (gross values)

EXPOSURES		CLASSES OF EXTERNAL RATINGS						WITHOUT RATINGS	TOTAL
		CLASS 1	CLASS 2	CLASS 3	CLASS 4	CLASS 5	CLASS 6		
A	FINANCIAL ASSETS MEASURED AT AMORTISED COST	69	84,814	84,353	278,989	175,673	84,083	1,137,806	**1,845,787**
	FIRST STAGE	20	84,814	84,353	278,989	162,014	8,885	993,466	**1,612,541**
	SECOND STAGE	49				13,659	50,024	47,506	**111,238**
	THIRD STAGE						25,174	96,834	**122,008**
B	FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH AN IMPACT ON TOTAL PROFITABILITY							8,834	**8,834**
	FIRST STAGE							3,576	**3,576**
	SECOND STAGE							5,258	**5,258**
	THIRD STAGE								
C	FINANCIAL ASSETS HELD FOR SALE								
	FIRST STAGE								
	SECOND STAGE								
	THIRD STAGE								
TOTAL (A+B+C)		69	84,814	84,353	278,989	175,673	84,083	1,146,640	1,854,621
D	COMMITMENTS TO DISBURSE FUNDS; FINANCIAL GUARANTEES ISSUED	415,856	1,247,406	1,427,089	967,506	627,441	69,488	3,437,534	**8,192,320**
	FIRST STAGE	415,856	1,247,173	1,409,144	961,598	611,901	67,766	2,843,760	**7,557,198**
	SECOND STAGE		233	17,945	5,908	15,540	1,722	573,841	**615,189**
	THIRD STAGE							19,933	**19,933**
TOTAL D		415,856	1,247,406	1,427,089	967,506	627,441	69,488	3,437,534	8,192,320
TOTAL (A+B+C+D)		415,925	1,332,220	1,511,442	1,246,495	803,114	153,571	4,584,174	10,046,941

Rating agencies used are Standard & Poor’s Rating Services, Moody’s Investors Service e Fitch Ratings as per following mapping:

EXTERNAL RATINGS BANDS	MOODY'S	S&P	FITCH
CLASS 1	Aaa/Aa3	AAA/AA-	
CLASS 2	A1/A3	A+/A-	
CLASS 3	Baa1/Baa3	BBB+/BBB-	
CLASS 4	Ba1/Ba3	BB+/BB-	
CLASS 5	B1/B3	B+/B-	
CLASS 6	Caa and below	CCC and below	

A.3 Distribution of guaranteed exposures by type of guarantee

A.3.1 Cash and off-balance sheet exposures to guaranteed banks

			GROSS EXPOSURE	NET EXPOSURE	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)									TOTAL (1+2)
					PROPERTIES, MORTGAGES	PROPERTIES, LEASING FINANCING	SECURITIES	OTHER REAL GUARANTEES	CREDIT DERIVATIVES					SIGNATURE CREDITS				
									CLN	OTHER DERIVATIVES				PUBLIC ADMINISTRATIONS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	
										CENTRAL COUNTER PARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES					
1	**GUARANTEED CASH CREDIT EXPOSURES:**		**104,548**	**104,548**				**104,283**										**104,283**
	1.1	TOTALLY GUARANTEED	104,548	104,283				104,283										104,283
		- OF WHICH: IMPAIRED																
	1.2	PARTIALLY GUARANTEED																
		- OF WHICH: IMPAIRED																
2	**GUARANTEED OFF-BALANCE SHEET CREDIT**		**125,140**	**125,140**				**125,140**										**104,283**
	2.1	TOTALLY GUARANTEED	125,140	125,140				125,140										104,283
		- OF WHICH: IMPAIRED																
	2.2	PARTIALLY GUARANTEED																
		- OF WHICH: IMPAIRED																

A.3.2 Cash and off-balance sheet exposures to guaranteed customers

			GROSS EXPOSURE	NET EXPOSURE	REAL GUARANTEES (1)				PERSONAL GUARANTEES (2)										TOTAL (1+2)
									CREDIT DERIVATIVES					SIGNATURE CREDITS					
					PROPERTIES, MORTGAGES	PROPERTIES, LEASING FINANCING	SECURITIES	OTHER REAL GUARANTEES	CLN	OTHER DERIVATIVES				PUBLIC ADMINISTRATIONS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES	
										CENTRAL COUNTER PARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES					
1		**GUARANTEED CASH CREDIT EXPOSURES:**	**29,226**	**27,509**	9,741			**151**									**17,617**	**27,509**
	1.1	TOTALLY GUARANTEED	29,226	27,509	9,741			151									17,617	27,509
		- OF WHICH: IMPAIRED	12,770	11,069	112												10,957	11,069
	1.2	PARTIALLY GUARANTEED																
		- OF WHICH: IMPAIRED																
2		**GUARANTEED OFF-BALANCE SHEET CREDIT**	**64,716**	**64,588**				**1,816**									62,772	**64,588**
	2.1	TOTALLY GUARANTEED	64,716	64,588				1,816									62,772	64,588
		- OF WHICH: IMPAIRED	110	100				100										100
	2.2	PARTIALLY GUARANTEED																
		- OF WHICH: IMPAIRED																

B. Distribution and concentration of loans

B.1 Sectoral distribution of cash and off-balance-sheet exposures to customers

EXPOSURES/ COUNTERPARTIES			PUBLIC ADMINISTRATIONS		FINANCIAL COMPANIES		FINANCIAL COMPANIES (OF WHICH: INSURANCE		NON-FINANCIAL COMPANIES		FAMILIES	
			NET EXPOSURE	TOTAL VALUE DJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS	NET EXPOSURE	TOTAL VALUE ADJUSTMENTS
A	**CASH CREDIT EXPOSURES**											
	A1	NON-PERFORMING LOANS										
		- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS										
	A2	PROBABLE DEFAULTS	9,993	4,283					3,731	38,101	112	158
		- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS							22,637	43,242		
	A3	EXPIRED IMPAIRED EXPOSURES							11,646	12,241		
		- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS									1	
	A4	NON-DETERIORATED EXPOSURES	626,812	17,424	2,565	1			282,394	340	13,477	81
		- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS										
TOTAL A			636,805	21,707	2,565	1			308,762	81,683	13,590	239
B	**OFF-BALANCE-SHEET CREDIT EXPOSURES**											
	B1	IMPAIRED EXPOSURES							16,437	3,495		
	B2	NON-DETERIORATED EXPOSURES			221,550	29			980,000	360	1,432	
TOTAL B					221,550	29			996,437	3,855	1,432	
TOTAL (A+B) 31.12.2019			636,805	21,707	224,115	30			1,305,199	85,538	15,022	239
TOTAL (A+B) 31.12.2018			582,547	5,245	101,541	4			1,480,615	75,875	14,786	239

B.2 Distribution of cash and off-balance sheet exposures to customers by geographical area (book value)

EXPOSURES/ GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
A CASH CREDIT EXPOSURES										
A1 BAD DEBTS	3,843	33,023		4,758				478		
A2 PROBABLE DEFAULTS	21,743	43,019	894	224					9,993	4,282
A3 EXPIRED IMPAIRED EXPOSURES	1								1	
A4 OTHER ASSETS / IN BONIS	515,742	443	137,326	312	28,771	14	172,493	16,312	70,916	764
TOTAL (A)	541,329	76,485	138,220	5,294	28,771	14	172,493	16,790	80,910	5,046
B OFF-BALANCE SHEET EXPOSURES										
B1 PAST DUE POSITIONS	16,437	2,160						1,335		
B2 NO PAST DUE POSITIONS	511,264	278	262,583	46	268,988	29	80,319		79,828	35
TOTAL (B)	527,701	2,438	262,583	46	268,988	29	80,319	1,335	79,828	35
TOTAL (A+B) 31.12.2019	1,069,030	78,923	400,803	5,340	297,759	43	252,812	18,125	160,738	5,081
TOTAL (A+B) 31.12.2018	1,153,888	70,026	399,173	5,926	287,465	16	191,538	4,835	139,316	559

B.3 Distribution of cash and off-balance sheet exposures to banks by geographical area (book value)

EXPOSURES/ GEOGRAPHICAL AREA	ITALY		OTHER EUROPEAN COUNTRIES		AMERICAS		ASIA		REST OF THE WORLD	
	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS	NET EXPOSURE	TOTAL WRITEDOWNS
A CASH CREDIT EXPOSURES										
A1 BAD DEBTS							366	4,188		
A2 PROBABLE DEFAULTS										
A3 EXPIRED IMPAIRED EXPOSURES									361	90
A4 OTHER ASSETS / IN BONIS	168,773	1,044	139,940	687	13,977	5	289,726	3,009	166,848	670
TOTAL (A)	168,773	1,044	139,940	687	13,977	5	7,197	7,197	167,848	760
B OFF-BALANCE SHEET EXPOSURES										
B1 PAST DUE POSITIONS										
B2 NO PAST DUE POSITIONS	2,002,135	152	2,040,093	76	116,000		1,175,664	139	1,634,372	855
TOTAL (B)	2,002,135	152	2,040,093	76	116,000		1,175,664	139	1,634,372	855
TOTAL (A+B) 31.12.2019	2,170,908	1,196	2,180,033	763	129,977	5	1,465,756	7,336	1,801,581	1,615
TOTAL (A+B) 31.12.2018	2,385,936	2,179	3,958,995	3,161	780,195		2,011,356	8,030	2,112,198	3,409

B.4 Large Exposures

A) AMOUNT (BALANCE SHEET VALUE)	1,334,957
B) AMOUNT (WEIGHTED VALUE)	687,559
C) NUMBER OF BALANCE POSITIONS	80
D) NUMBER OF WEIGHTED POSITIONS	14

The provisions contained in EEC Regulation no. 575/2013 state that the term “large exposure” for a banking organization refers to an exposure towards a customer or group of customers whose value equals or exceeds 10% of the eligible capital.

The provisions also state that the amount of a banking organisation’s exposure to an individual customer or group of connected customers resident in non-equivalent countries (Shadow Banking Entities - SBE) may not exceed 25% of the eligible capital. The figure of 25% clearly takes account of techniques to reduce credit risk, the type of guarantee acquired and the nature of the borrower.

The corporate bodies responsible for controls will carry out programmed checks on the total exposure of customers or groups of customers that fall into the category of large exposures, at the same time providing appropriate information to the overning bodies.

C. Securitization and disposal of assets

No data to report.

D. Structured entities not included in consolidated accounts (different from companies providing securitization)

No data to report.

E. Transfer operations

E.1 Financial assets sold and recognised in full, and associated financial liabilities: balance sheet values

EXPOSURES/ COUNTERPARTIES			FINANCIAL ASSETS SOLD AND RECOGNISED IN FULL				ASSOCIATED FINANCIAL LIABILITIES		
			BALANCE SHEET VALUE	OF WHICH: SUBJECT TO SECURITISATION OPERATIONS	OF WHICH: SUBJECT TO REPURCHASE AGREEMENTS	OF WHICH: IMPAIRED	BALANCE SHEET VALUE	BALANCE SHEET VALUE	OF WHICH: SUBJECT TO REPURCHASE AGREEMENTS
A	**FINANCIAL ASSETS HELD FOR TRADING**								
	A1	DEBT SECURITIES							
		- OF WHICH: EXPOSURES SUBJECT TO CONCESSIONS							
	A2	CAPITAL SECURITIES							
		FINANCING OPERATIONS							
	A3	DERIVATIVES							
B	**OTHER FINANCIAL ASSETS THAT ARE NECESSARILY MEASURED AT FAIR VALUE**								
	B1	DEBT SECURITIES							
	B2	CAPITAL SECURITIES							
	B3	FINANCING OPERATIONS							
C	**C. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE**								
	C1	DEBT SECURITIES							
	C2	FINANCING OPERATIONS							
D	**FINANCIAL ASSETS MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY**								
	D1	DEBT SECURITIES							
	D2	CAPITAL SECURITIES							
	D3	FINANCING OPERATIONS							
E	**FINANCIAL ASSETS VALUED AT AMORTISED COST**								
	E1	DEBT SECURITIES							
	E2	FINANCING OPERATIONS							
TOTAL (A+B) 31.12.2019									
TOTAL (A+B) 31.12.2018			80,070		80,070		72,778		72,778

F. Credit risk measurement models

At the moment the Bank is equipped with a tool that enables the attribution to each counterparty of an internal score and a Probability of Default (PD) built on an external sample of observations observed over a ten-year period. On the basis of the score provided by the Credit Analysis and Investigation Department, it is possible to determine for each counterparty and on the basis of macroeconomic scenarios by geographical area, the forward-looking risk parameters necessary for the calculation of the ECL (expected credit loss) that can be used as an indication when pricing (including the opportunity cost associated with capital provisions - unexpected credit loss - UCL) with a view to risk adjusted performance measurement.

In 2016, the Bank launched an overall project aimed at increasing the efficiency and effectiveness of all phases of the credit process (preliminary investigation, credit granting, performance control, analysis of risk profile, assessment of corporate activities), strengthening first-level and second-level controls. This project was finalised in the definition of the policy governing the credit risk management process and approved by the Board of Directors during the second half of 2018.

The corporate plan to adapt to the IFRS9 accounting standard was closely connected to this project, which in 2017 enabled the Bank to define the new system for devaluation and staging of performing positions, as well as the new classification and evaluation criteria also through the definition of the Business Model.

The policy is currently being revised in order to implement the guidelines regarding the NPL strategy and plan, to understand the operational peculiarities that emerged during the application and to ensure its integration with the Bank's Recovery Plan.

SECTION 2 – MARKET RISKS

2.1 – Price and interest rate risk: Trading book

QUALITATIVE INFORMATION

A. General aspects

The Board of Directors sets the maximum risk level for the trading portfolio, corresponding to the economic capital that the Bank is willing to allocate to cover the risks involved.

The market risk management policy (exchange rate, position and regulation) sets the internal operating limits and the related responsibilities and monitoring procedures.
Compliance with current limits is monitored daily by the Middle Office (first-level control) and by the Risk Management Department (second-level control) on the basis of the outputs provided by the ObjFin application.

The transactions of the Finance Department are in fact recorded in the ObjFin application integrated into the Bank's information-accounting system where the internal operating limits system has been replicated to allow its monitoring by the competent offices in real time. The reporting system has also been implemented within the application making it possible to obtain automatic reports that enable the various offices to be informed based on the frequencies established on the situation relating to positions, risks and exceeding operating limits.

The application manages the following financial instruments:

- *Traditional Forex and OTC derivatives;*
- *Traditional Money Market and derivatives (FRA, IRS, OIS);*
- *Bonds and derivatives;*
- *Equity and derivatives (index futures, stock futures, ETFs and options traded on regulated markets).*

In particular:
- the position risk on the non-fixed portfolio is expressed in terms of VaR, with a 99% confidence interval and a 10-day holding period;
- the counterparty risk is calculated by applying the current value method of the positions in OTC derivatives;
- the interest rate risk is expressed in terms of sensitivity to shifts in the curve rate (duration).

In outlining the relevant legislation, the Board of Directors pursued two fundamental principles:

- each operating type must correspond to a portfolio of financial instruments;
- each type of risk identified in relation to the operating types must correspond to a specific system of intake limits and a system for quantifying the corporate exposure.

The adoption of these criteria makes the exercise of delegated powers more transparent and control more effective.

B. Managing processes and methods for measuring interest rate risk and price risk

Intermediation between the market and customers, both banking and corporate, relating to interest rate and exchange rate derivative instruments can generate daily misalignments in the related portfolio and therefore a temporary increase in exposure to generic position risk, both borne by the Treasury and Financial Market Department.

Trading positions in interest rate and exchange rate derivative instruments (regulated and OTC) are recorded on the front office system, which also supports the daily pricing of the instruments and the calculation of unrealised profits and losses. The risk of each open position on financial instruments is expressed synthetically in terms of VaR, with a holding period of 10 days and a 99% confidence interval, and is subject to compliance with quantitative limits put forward by the Risk Committee, approved by the Board of Directors and monitored periodically by the Risk Management Department. The approximation of the limits involves the activation of verification procedures and possibly the return of the exposure.

The Bank has adopted an internal policy governing the market risk management process, defining the methods for identifying, assessing, measuring and monitoring risk and allocating tasks and responsibilities among the internal offices. The Risk Management Department prepares periodic reports containing the results of the analyses conducted and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

Within the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for market risks; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

QUANTITATIVE INFORMATION

1.A Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives Currency: EUR

		TYPE / RESIDUAL MATURITY	SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	INDEFINITE
1	**CASH ASSETS**			3,475			**4,188**			
	1.1	DEBT SECURITIES		3,475			4,188			
		- WITH OPTION OF EARLY REPAYMENT					100			
		- OTHERS		3,475			4,088			
	1.2	OTHER ASSETS								
2	**LIABILITIES FOR CASH**									
	2.1	P.C.T. LIABILITIES								
	2.2	OTHER LIABILITIES								
3	**FINANCIAL DERIVATIVES**									
	3.1	**WITH UNDERLYING SECURITY**		**403,914**	**91,421**		**242,853**			
		- OPTIONS								
		- LONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATIVES								
		- LONG POSITIONS								
		- SHORT POSITIONS								
	3.2	**WITHOUT UNDERLYING SECURITY**		**403,914**	**91,421**		**242,853**			
		- OPTIONS								
		- PLONG POSITIONS								
		- SHORT POSITIONS								
		- OTHER DERIVATIVES		**403,914**	**91,421**		**242,853**			
		- LONG POSITIONS		322,110	**38,902**		8,902			
		-SHORT POSITIONS		81,804	**52,519**		233,951			

1.B Regulatory trading portfolio: distribution by residual duration (re-pricing date) of financial assets and liabilities for cash and financial derivatives Currency: USD

TYPE / RESIDUAL MATURITY			SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS
1	**CASH ASSETS**				
	1.1	DEBT SECURITIES			
		- WITH OPTION OF EARLY REPAYMENT			
		- OTHERS			
	1.2	OTHER ASSETS			
2	**LIABILITIES FOR CASH**				
	2.1	P.C.T. LIABILITIES			
	2.2	OTHER LIABILITIES			
3	**FINANCIAL DERIVATIVES**			**47,560**	
	3.1	**WITH UNDERLYING SECURITY**			
		- OPTIONS			
		- LONG POSITIONS			
		- SHORT POSITIONS			
		- OTHER DERIVATIVES			
		- LONG POSITIONS			
		- SHORT POSITIONS			
	3.2	**WITHOUT UNDERLYING SECURITY**		**47,560**	
		- OPTIONS			
		- PLONG POSITIONS			
		- SHORT POSITIONS			
		- OTHER DERIVATIVES		**47,560**	
		- LONG POSITIONS		25,228	
		-SHORT POSITIONS		22,332	

1.C Regulatory trading portfolio: distribution by residual duration (re- ricing date) of financial assets and liabilities for cash and financial derivatives Currency: Other

TYPE / RESIDUAL MATURITY			SIGHT	UP TO 3 MONTHS	3 TO 6 MONTHS
1	**CASH ASSETS**				
	1.1	DEBT SECURITIES			
		- WITH OPTION OF EARLY REPAYMENT			
		- OTHERS			
	1.2	OTHER ASSETS			
2	**LIABILITIES FOR CASH**				
	2.1	P.C.T. LIABILITIES			
	2.2	OTHER LIABILITIES			
3	**FINANCIAL DERIVATIVES**			**38,155**	
	3.1	**WITH UNDERLYING SECURITY**			
		- OPTIONS			
		- LONG POSITIONS			
		- SHORT POSITIONS			
		- OTHER DERIVATIVES			
		- LONG POSITIONS			
		- SHORT POSITIONS			
	3.2	**WITHOUT UNDERLYING SECURITY**		**38,155**	
		- OPTIONS			
		- PLONG POSITIONS			
		- SHORT POSITIONS			
		- OTHER DERIVATIVES		**38,155**	
		- LONG POSITIONS		16,799	
		-SHORT POSITIONS		21,356	

The distribution by residual duration of financial assets and liabilities relating to other currencies reaches up to three months.

2. Supervisory trading book: distribution of exposures in capital securities and share indices for the main countries where shares are listed

No data to report.

3. Supervisory trading book: internal models and other methods for analyzing sensitivity

No data to report.

2.2 – Price and Interest rate risk – Banking book

QUALITATIVE INFORMATION

A. General aspects, management procedures, methods of measuring interest rate risk

The prudential regulation (Pillar II) provides for the calculation of an additional capital requirement against the interest rate risk on the banking book and provides that the banks continuously monitor the size of this risk, through the calculation ofa "risk indicator", corresponding to a sudden change that involves a parallel shift in the interest rate curve of 200 bps.

The value of this indicator should never exceed the 20% limit of Own Funds; this value is much higher than that used by Banca UBAE, which is more contained due to the high concentration of deposits and loans over a 12-month time horizon and the presence of derivative instruments that reduce the risk.

From a management point of view, internal regulations have provided for an internal limit lower than the regulatory threshold and equal to 3.69%(1) of Own Funds, as it is more consistent with the Bank's real exposure to risk. The Risk Management Department, for ICAAP purposes and using an ALM (Asset Liability Management) product, conducts quarterly analyses in terms of maturity ladder and monitors compliance with the internal operating limit according to the simplified approach adopted.

The Department also conducts, on a quarterly basis, exposure stress testing activities assuming parallel and non-parallel shifts in the interest rate curve. Also, in compliance with the new regulatory provisions, it assesses the exposure to risk also in terms of potential variation of the interest margin following a parallel shift in the rate curve.

The Bank has adopted an internal policy governing the risk management process,defining the methods for identifying, assessing, measuring and monitoring risk andallocating tasks and responsibilities among the internal units.The Risk Management Department prepares periodic reports containing the resultsof the analyses and intended for the Risk Committee, the Audit & Risk Committeeand the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Department monitors compliance with the macro risk limit and risk tolerance for interest rate risk on the banking book on a quarterly basis; the results of the analyses in terms of risk indicator, capital absorption and monitoring of internal operating limits are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

(1) This percentage is configured within the Risk Appetite Framework as a specific risk tolerance for interest rate risk on the banking book.

B. Hedging activities for fair value

Banca UBAE does not hold derivative instruments hedging fair value assets and liabilities in its portfolio.

C. Hedging activities for financial flows

Banca UBAE holds interest rate derivatives (IRS) in its portfolio aimed at offering a macro-hedging of the interest margin implicit in the financial flows deriving from banking activities (securities and loans). The hedging and trading of derivative instruments is handled by the Treasury of the Finance Department.

QUANTITATIVE INFORMATION

1.A Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: EUR

	TYPE/RESIDUAL DURATION	AT SIGHT	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**83,186**	**664,929**	**145,094**	**33,462**	**59,745**	**11,391**	**3,266**	
	1.1 DEBT SECURITIES		380,978	64,757	10,260	53,162			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		380,978	64,757	10,260	53,162			
	FINANCING TO BANKS	15,651	129,524	64,922	22,449	0	409		
	1.3 FINANCING TO CUSTOMERS	67,535	154,427	15,415	753	6,583	10,982	3,266	
	- CURRENT ACCOUNTS	17,237					300		
	- OTHER FINANCINGS	50,298	154,427	15,415	753	6,583	10,682	3,266	
	- WITH EARLY REPAYMENT OPTION	96	192	296	589	4,433	3,780	3,266	
	- OTHERS	50,202	154,235	15,119	164	2,150	6,902		
2	**CASH LIABILITIES**	**263,360**	**340,179**	**382,731**	**57,561**	**152**	**12**		
	2.1 PAYABLES TO CUSTOMERS	70,871	14	32	57	152	12		
	- CURRENT ACCOUNTS	69,538							
	- OTHER PAYABLES	1,333	14	32	57	152	12		
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS	1,333	14	32	57	152	12		
	2.2 PAYABLES TO BANKS	192,489	340,165	382,699	57,504				
	- C/C	83,315							
	- CURRENT ACCOUNTS	109,174	340,165	382,699	57,504				
	- OTHER PAYABLES								
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATIVES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**								
	- LONG POSITIONS								
	- SHORT POSITIONS								

1.B Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: USD

	TYPE/RESIDUAL DURATION	AT SIGHT	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**109,872**	390,468	90,129	34,298	150,163			
	1.1 DEBT SECURITIES		29,302	52,845		80,288			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		29,302	52,845		80,288			
	FINANCING TO BANKS	109,872	260,792	36,633	33,798	68,874			
	1.3 FINANCING TO CUSTOMERS		100,374	651	500	1,001			
	- CURRENT ACCOUNTS								
	- OTHER FINANCINGS		100,374	651	500	1,001			
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS		100,374	651	500	1,001			
2	**CASH LIABILITIES**	**170,334**	424,078	105,335	89,064				
	2.1 PAYABLES TO CUSTOMERS	46,815	14,676	178	89,064				
	- CURRENT ACCOUNTS	46,221	14,676	178	89,064				
	- OTHER PAYABLES	594							
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	123,519	409,402	105,157					
	- C/C	117,891							
	- CURRENT ACCOUNTS	5,628	409,402	105,157					
	- OTHER PAYABLES								
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATIVES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**	**101,000**							
	- LONG POSITIONS	50,500							
	- SHORT POSITIONS	50,500							

1.A Banking book: Distribution of cash financial assets/liabilities and financial derivatives by residual maturity (repricing date) Currency: Others

	TYPE/RESIDUAL DURATION	AT SIGHT	UP TO 3 MONTHS	OVER 3 MONTHS TO 6 MONTHS	OVER 6 MONTHS TO 1 YEAR	OVER 1 YEAR TO 5 YEARS	OVER 5 YEARS TO 10 YEARS	OVER 10 YEARS	INDETERMINATE DURATION
1	**CASH ASSETS**	**2,590**	**3,531**	**212**					
	1.1 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	FINANCING TO BANKS	2,583	21						
	1.3 FINANCING TO CUSTOMERS	7	3,510	212					
	- CURRENT ACCOUNTS								
	- OTHER FINANCINGS	7	3,510	212					
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS	7	3,510	212					
2	**CASH LIABILITIES**	**2,061**	**98**						
	2.1 PAYABLES TO CUSTOMERS	259	98						
	- CURRENT ACCOUNTS	259	98						
	- OTHER PAYABLES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.2 PAYABLES TO BANKS	1,802							
	- C/C	1,802							
	- CURRENT ACCOUNTS								
	- OTHER PAYABLES								
	2.3 DEBT SECURITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
	2.4 OTHER LIABILITIES								
	- WITH EARLY REPAYMENT OPTION								
	- OTHERS								
3	**FINANCIAL DERIVATIVES**								
	3.1 WITH UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	3.2 WITHOUT UNDERLYING SECURITY								
	- OPTIONS								
	- LONG POSITIONS								
	- SHORT POSITIONS								
	- OTHER DERIVATIVES								
	- LONG POSITIONS								
	- SHORT POSITIONS								
4	**OTHER OFF-BALANCE-SHEET TRANSACTIONS**								
	- LONG POSITIONS								
	- SHORT POSITIONS								

2.3 - Currency risk

QUALITATIVE INFORMATION

A. General aspects, processes and methods of measuring exchange risk

In the banking book, the capital structure of Banca UBAE is characterised by deposits in dollars and euros balanced by loans denominated in the same currencies.

Brokerage on exchange and forward derivative instruments can lead to an increase in the Bank's overall exposure to exchange rate risk, deriving from the holding of assets and liabilities denominated in foreign currencies.

The Board of Directors approves the Bank's overall exchange risk exposure limits (intraday and overnight operating limits and stop-loss limits), entrusting its management to the Risk Committee and daily monitoring to the Middle Office Department.

B. Hedging activities for exchange rate risk

The Finance Department of Banca UBAE realises the macro-hedging of cash flows in foreign currency by holding exchange rate derivative instruments, based on its own market vision.

QUANTITATIVE INFORMATION

1. Distribution by currency of denomination of assets, liabilities and derivatives

ITEMS	VALUTE					
	US DOLLARS	YEN	CANADIAN DOLLARS	DIRHAM UAE	POUNDS STERLING	OTHER CURRENCIES
FINANCIAL ASSETS	**778,911**	**73**	**2,497**	**1,507**	**1,020**	**1,241**
A.1 DEBT SECURITIES	163,816					
A.2 CAPITAL SECURITIES	4					6
A.3 FINANCING FOR BANKS	512,413	73	190	92	1,020	1,228
A.4 FINANCING FOR CUSTOMERS	102,678		2,307	1,415		7
A.5 OTHER FINANCING ASSETS						
B. OTHER ASSETS	**74**	**56**	**2**		**13**	**7**
C. FINANCIAL LIABILITIES	**788,812**	**56**			**1,141**	**963**
C.1 DEBTS TOWARDS BANKS	638,079				1,024	778
C.2 DEBTS TOWARDS CUSTOMERS	150,733				117	185
C.3 DEBT SECURITIES						
C.4 OTHER FINANCIAL LIABILITIES						
D. OTHER LIABILITIES						
E. FINANCIAL DERIVATIVES	**47,560**	**33,270**	**2,466**	**2,091**		**328**
- OPTIONS						
- LONG POSITIONS						
- SHORT POSITIONS						
- OTHER DERIVATIVES	47,560	33,270	2,466	2,091		328
- LONG POSITIONS	25,228	16,635				164
- SHORT POSITIONS	22,332	16,635	2,466	2,091		164
TOTAL ASSETS	804,213	16,708	2,499	1,507	1,033	1,412
TOTAL LIABILITIES	811,144	16,691	2,466	2,091	1,141	1,127
IMBALANCE (+/-)	(6,931)	17	33	(584)	(108)	285

SECTION 3 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING POLICIES

3.1 Derivative trading instruments

A. Financial derivatives

In the 2019 financial year, UBAE Bank did not carry out trading activities of financial derivatives on behalf of third parties, limiting the activity on its own account to hedging the risks associated with the trading portfolio and the banking portfolio.
Banca UBAE mainly uses derivatives aimed at hedging its exposures on interest rates (IRS) and in particular on exchange rates (Currency SWAP) in order to reduce the exposure, from a management point of view. The mitigation of market risk is made possible through the use of derivative instruments destined for the management of the Bank's investments.
The strategy pursued by the Bank is aimed at containing the effects deriving from possible fluctuations in the exchange rate, the interest rate, and the share price by inserting the following derivative instruments in the portfolio: currency swaps, interest rate swaps and equity derivatives (futures and options).

Unlike foreign exchange derivatives, which allow sterilisation by setting the economic component generated by Forex operations, interest rate derivatives are used by the Bank to mitigate the effect of possible and adverse fluctuations in returns with respect to the value of portfolio assets (securities and loans) and minimizing the time horizon of exposure to risk. The results of the analyses conducted periodically by the Risk Management Department are reported to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

Furthermore, similarly to what is described for market risks, the use of derivative instruments (IRS) is used to implement the management coverage of loans and HTC securities thus reducing the Bank's exposure to interest rate risk on the banking book. The contained exposure to the latter risk, also resulting from the levels of the risk indicator constantly below the regulatory threshold, is also a consequence of the prudential strategic guidelines set by the Board of Directors.

A.1 Financial derivatives for trading: notional values at end of period

UNDERLYING ASSETS/ TYPES OF DERIVATIVES			31.12.2019				31.12.2018			
			OVER THE COUNTER			ORGANISED MARKETS	OVER THE COUNTER			ORGANISED MARKETS
			CENTRAL COUNTERPARTIES	WITHOUT CENTRAL			CENTRAL COUNTERPARTIES	WITHOUT CENTRAL		
				WITH COMPENSATION AGREEMENTS	WITHOUT COMPENSATION AGREEMENTS			WITH COMPENSATION AGREEMENTS	WITHOUT COMPENSATION AGREEMENTS	
1	**DEBT SECURITIES AND INTEREST RATES**			**326,527**				**257,546**		
	A)	OPTIONS								
	B)	SWAP		326,527				257,546		
	C)	FORWARD								
	D)	FUTURES								
	E)	OTHERS								
2	**EQUITIES AND EQUITY INDICES**									
	A)	OPTIONS								
	B)	SWAP								
	C)	FORWARD								
	D)	FUTURES								
	E)	OTHERS								
3	**CURRENCIES AND GOLD**				**37,778**				**228,741**	
	A)	OPTIONS								
	B)	SWAP								
	C)	FORWARD			37,778				228,741	
	D)	FUTURES								
	E)	OTHERS								
4	**GOODS**									
5	**OTHERS**									
TOTAL				326,527	37,778			257,546	228,741	

A.2 Financial derivatives for trading: positive and negative gross fair value - composition by product

UNDERLYING ASSETS/TYPES OF DERIVATIVES		31.12.2019				31.12.2018			
		OVER THE COUNTER			ORGANISED MARKETS	OVER THE COUNTER			ORGANISED MARKETS
		CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES			CENTRAL COUNTERPARTIES	WITHOUT CENTRAL COUNTERPARTIES		
			WITH COMPENSATION AGREEMENTS	WITHOUT COMPENSATION AGREEMENTS			WITH COMPENSATION AGREEMENTS	WITHOUT COMPENSATION AGREEMENTS	
1	**FAIR POSITIVE VALUE**								
A)	OPTIONS		781				3,338		
B)	INTEREST RATE SWAP								
C)	CROSS CURRENCY SWAP								
D)	EQUITY SWAP								
E)	FORWARD			407				2,859	
F)	FUTURES								
G)	OTHERS								
TOTAL			781	407			3,338	2,859	
2	**FAIR NEGATIVE VALUE**								
A)	OPTIONS								
B)	INTEREST RATE SWAP		2.023				779		
C)	CROSS CURRENCY SWAP								
D)	EQUITY SWAP								
E)	FORWARD			412				2,823	
F)	FUTURES								
G)	OTHERS								
TOTAL			2.023	412			779	2,823	

A.3 OTC financial derivatives:
notional values, positive and negative gross fair value for counterparties

	UNDERLYING SECURITY	GOVERNMENTS, CENTRAL BANKS	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
CONTRACTS NOT INCLUDED IN COMPENSATION AGREEMENTS					
1	**DEBT SECURITIES AND INTEREST RATES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
2	**EQUITY SECURITIES AND EQUITY INDICES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
3	**CURRENCIES AND GOLD**		**38,597**		
	- NOTIONAL VALUE		37,778		
	- FAIR POSITIVE VALUE		407		
	- FAIR NEGATIVE VALUE		412		
4	**GOODS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
5	**OTHERS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
CONTRACTS INCLUDED IN COMPENSATION AGREEMENTS					
1	**DEBT SECURITIES AND INTEREST RATES**		329,331		
	- NOTIONAL VALUE		326,527		
	- FAIR POSITIVE VALUE		781		
	- FAIR NEGATIVE VALUE		2,023		
2	**EQUITY SECURITIES AND EQUITY INDICES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
3	**CURRENCIES AND GOLD**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
4	**GOODS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
5	**OTHERS**				

A.4 Residual life of OTC financial derivatives for trading: notional values

UNDERLYING SECURITIES/ RESIDUAL LIFE		UP TO 1 YEAR	OVER 1 YEAR AND UP TO 5 YEARS	OVER 5 YEARS	TOTAL
A1	FINANCIAL DERIVATIVES ON DEBT SECURITIES AND INTEREST RATES	83,674	242,853		326,527
A2	FINANCIAL DERIVATIVES ON EQUITIES AND EQUITY INDICES				
A3	FINANCIAL DERIVATIVES ON CURRENCIES AND GOLD	37,778			37,778
A4	FINANCIAL DERIVATIVES ON GOODS				
A5	OTHER FINANCIAL DERIVATIVES				
TOTAL 31.12.2019		121,452	242,853		364,305
TOTAL 31.12.2018		228,741	257,546		486,287

B. Credit derivatives

No data to report.

3.2 Accounting coverage

The Bank does not carry out hedging transactions pursuant to current legislation

3.3 Further information on derivative trading and hedging instruments

A.1 OTC financial and credit derivatives: net fair value for counterparties

		CENTRAL COUNTERPARTIES	BANKS	OTHER FINANCIAL COMPANIES	OTHER ENTITIES
FINANCIAL DERIVATIVES					
1	**DEBT SECURITIES AND INTEREST RATES**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
2	**CAPITAL SECURITIES AND SHARE INDICES**		**328,187**		
	- NOTIONAL VALUE		326,527		
	- FAIR POSITIVE VALUE		209		
	- FAIR NEGATIVE VALUE		1,451		
3	**CURRENCIES AND GOLD**		**38,597**		
	- NOTIONAL VALUE		37,778		
	- FAIR POSITIVE VALUE		407		
	- FAIR NEGATIVE VALUE		412		
4	**GOODS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
5	**OTHERS**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
CREDIT DERIVATIVES					
1	**ACQUISITION AND PROTECTION**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				
2	**SALE AND PROTECTION**				
	- NOTIONAL VALUE				
	- FAIR POSITIVE VALUE				
	- FAIR NEGATIVE VALUE				

SECTION 4 – LIQUIDITY RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring liquidity risk

In view of the liquidity risk, defined as the Bank's inability to meet its payment commitments due to sudden difficulties in obtaining funds on the market and/or to promptly liquidate positions on financial instruments, banks admitted to the simplified methods are not required to calculate an additional capital requirement (Pillar II); however, the same must provide for an internal policy that establishes the system of operating limits to be respected and the procedures to be followed in the event of a liquidity crisis (contingency funding plan). An ILAAP (Internal Liquidity Assessment Process) must also be provided to assess the adequacy of the liquidity risk management system. The ILAAP involves analysis and monitoring of the liquidity situation, periodic internal and external reporting and adequate stress testing ensuring its integration with the ICAAP and with the Bank's Recovery Plan. The description of this process and the management results are included in the ICAAP/ILAAP report sent annually to the Oversight Authority. The financial sources of Banca UBAE are represented by Own Funds and by the deposits made mainly on the interbank market.

Taking into account the composition of the Bank's assets, the type of activity carried out, the strategies defined by the Board of Directors and oriented mainly towards short-term uses, the liquidity risk for Banca UBAE does not represent, under normal financial market conditions, an element of particular criticality. Furthermore, in consideration of the interbank relations, the support of the majorityshareholder and the creation of a portfolio of "eligible" bonds that can be used in ready-to-maturity transactions with the central bank, as well as the type and quality of its assets, Banca UBAE holds financial resources tailored to meet the needs of customers.
The Bank in any case is constantly committed to the search for diversification of its sources of financing with particular attention to the volumes and costs of the same.

The Bank's corporate functions responsible for ensuring the correct application of the liquidity policy are the Treasury, which deals with the direct management of liquidity, the Risk Management Department, which is responsible for identifying the most appropriate risk indicators and monitoring their progress in relation to the set limits, and to support the activities of the Risk Committee which is responsible for proposing the funding and liquidity risk management policies annually to the Board of Directors and suggesting any appropriate interventions to ensure the performance of the activity in full harmony with approved risk policies.

The Banca UBAE policy, in addition to outlining the management guidelines, divides roles and responsibilities among the internal units involved, while the contingency funding plan, connected to a system of early-warning indicators highlights any crisis situations, defines the strategies intervention in the event of liquidity tensions, providing for extraordinary procedures to be activated to ensure the survival of the Bank even in conditions of stress.

In this context, the escalation procedure provided by the Recovery Plan is inserted, which contains, also with reference to the liquidity indicator, alarm thresholds and activation thresholds of the Plan with the related recovery options.

The Risk Management Department, in compliance with the provisions of the liquidity risk management policy, monitors the attention thresholds for the earlywarning indicators and for the LCR and periodically conducts stress tests. For reporting purposes, it also produces a weekly liquidity report (in standard format) intended for Banca d'Italia, while for internal purposes it produces a report relating to monitoring activities for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

In particular, the Risk Management Department on a weekly basis builds the maturity ladder (on the basis of the outflows and inflows distributed by expiry time band) and monitors the trend of the early-warning indicators. Then, on a monthly basis, the Department calculates the ratios related to the concentration of the collection and the monitoring tools in order to evaluate the temporal trend. As regards liquidity ratios (LCR and NSFR), it carries out periodic monitoring and reporting.

In particular, in light of the current regulatory framework (Basel 3), the Bank monitors the level of the Liquidity Coverage Ratio daily through a specific automatic tool and reports to Banca d'Italia on a monthly basis. Monitoring of this ratio highlights compliance with the current regulatory limit (100%), reaching an average of over 450% in 2019.

In January 2019, the Board of Directors approved the new version of the liquidity policy, subject to revision in order to incorporate the prevalent role attributed to the LCR in the context of risk management. The new version of the policy also provides for the integration of internal processes also in light of the attention thresholds and actions mentioned within the Bank's Recovery Plan and the stress testing defined for ILAAP purposes. Furthermore, in the second half of 2019, liquidity risk was also included in the analysis and monitoring perimeter as part of the Risk Appetite Framework review process. In particular, the risk appetite and the risk tolerance for this risk were defined not in terms of capital requirement but in terms of attention thresholds for the LCR indicator ensuring its integration with the Bank's Recovery Plan.

QUANTITATIVE INFORMATION

1.A Time distribution for residual contract duration of financial assets and liabilities - EUR

		ITEMS/TIMING AT SIGHT	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 7 DAYS TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETERMINATE DURATION
A	**CASH ACTIVITIES**		**81,962**	**15,741**	**89,662**	**51,829**	**116,423**	**143,367**	**39,342**	**64,212**	**396,178**	**15,178**
	A1	GOVERNMENT BONDS					274	62,780	10,521	23,500	381,500	
	A2	OTHER DEBT SECURITIES	20			4	20	29	5,594	34,100		2,259
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	81,962	15,741	89,662	51,825	116,129	80,558	23,227	6,612	14,678	12,919
		- BANKS	15,947	1,346	83,936	962	30,435	65,016	22,421		409	12,919
		- CUSTOMERS	65,995	14,395	5,726	50,863	85,694	15,542	806	6,612	14,269	
B	**CASH LIABILITIES**		**163,566**		**2,593**		**337,865**	**382,773**	**57,578**	**100,152**	**12**	
	B1	DEPOSITS AND CURRENT ACCOUNTS	162,027		2,593		337,865	382,740	57,519			
		- BANKS	92,488		2,593		337,865	382,740	57,519			
		- CUSTOMERS	69,539									
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	1,539					33	59	100,152	12	
C	**"OFF-BALANCE-SHEET" OPERATIONS**		**2,804**	**47,320**		**4,542**	**33,271**					
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		47,320		4,542	33,271					
		- LONG-TERM POSITIONS		22,208		4,542	16,636					
		- SHORT-TERM POSITIONS		25,112			16,635					
	C2	DERIVATI FINANZIARI SENZA SCAMBIO DI CAPITALE	2,804									
		- LONG-TERM POSITIONS	781									
		- SHORT-TERM POSITIONS	2,023									
	C3	RECEIVABLE DEPOSITS AND FINANCINGS										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

1.B Time distribution for residual contract duration of financial assets and liabilities – USD

		ITEMS/TIMING AT SIGHT	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 7 DAYS TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETERMINATE DURATION
A		**CASH ACTIVITIES**	**110,679**	**102,959**	**8,257**	**137,771**	**144,284**	**95,057**	**36,394**	**157,531**	**5,304**	
	A1	GOVERNMENT BONDS			154	367	32,655	55,058	2,093	80,114	5,304	
	A2	OTHER DEBT SECURITIES				27	130	2,737	157	5,786		
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	110,679	102,959	8,103	137,377	111,499	37,262	34,144	71,631		
		- BANKS	110,679	83,473	2,471	124,352	49,117	36,610	33,643	70,628		
		- CUSTOMERS		19,486	5,632	13,025	62,382	652	501	1,003		
B		**CASH LIABILITIES**	**170,335**	**32,304**	**901**	**118,043**	**275,045**	**106,260**	**90,032**			
	B1	DEPOSITS AND CURRENT ACCOUNTS	169,741	32,304	901	118,043	275,045	106,260	90,032			
		- BANKS	123,520	27,064	901	108,725	274,911	106,081				
		- CUSTOMERS	46,221	5,240		9,318	134	179	90,032			
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES	594					38,277	6,676			
C		**"OFF-BALANCE-SHEET" OPERATIONS**	**44,953**	**47,560**								
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		47,560								
		- LONG-TERM POSITIONS		25,228								
		- SHORT-TERM POSITIONS		22,332								
	C2	DERIVATI FINANZIARI SENZA SCAMBIO DI CAPITALE										
		- LONG-TERM POSITIONS										
		- SHORT-TERM POSITIONS										
	C3	RECEIVABLE DEPOSITS AND FINANCINGS										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS	44,953									
		- LONG POSITIONS						38,277	6,676			
		- SHORT POSITIONS	44,953					38,277	6,676			
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

1.C Time distribution for residual contract duration of financial assets and liabilities–others

		ITEMS/TIMING AT SIGHT	AT SIGHT	FROM OVER 1 DAY TO 7 DAYS	FROM OVER 7 DAYS TO 15 DAYS	FROM OVER 15 DAYS TO 1 MONTH	FROM 1 MONTH TO 3 MONTHS	FROM 3 MONTHS TO 6 MONTHS	FROM 6 MONTHS TO 1 YEAR	FROM 1 YEAR TO 5 YEARS	MORE THAN 5 YEARS	INDETERMINATE DURATION
A	**CASH ACTIVITIES**		**2,618**	**193**	**2,332**	**1,008**		**215**				
	A1	GOVERNMENT BONDS										
	A2	OTHER DEBT SECURITIES										
	A3	O.I.C.R. PORTIONS										
	A4	FINANCINGS	2,618	193	**2,332**	1,008		215				
		- BANKS	2,611			21						
		- CUSTOMERS	7	193	**2,332**	987		215				
B	**CASH LIABILITIES**		**2,062**				**98**					
	B1	DEPOSITS AND CURRENT ACCOUNTS	2,062				98					
		- BANKS	1,858									
		- CUSTOMERS	204				98					
	B2	DEBT SECURITIES										
	B3	OTHER LIABILITIES										
C	**"OFF-BALANCE-SHEET" OPERATIONS**			**377**		**4,557**	**33,221**					
	C1	FINANCIAL DERIVATIVES WITH CAPITAL EXCHANGE		377		4,557	33,221					
		- LONG-TERM POSITIONS		189			16,610					
		- SHORT-TERM POSITIONS		188		4,557	16,611					
	C2	DERIVATI FINANZIARI SENZA SCAMBIO DI CAPITALE										
		- LONG-TERM POSITIONS										
		- SHORT-TERM POSITIONS										
	C3	RECEIVABLE DEPOSITS AND FINANCINGS										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C4	IRREVOCABLE COMMITMENTS TO DISBURSE FUNDS										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C5	FINANCIAL GUARANTEES ISSUED										
	C6	FINANCIAL GUARANTEES RECEIVED										
	C7	CREDIT DERIVATIVES WITH CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										
	C8	CREDIT DERIVATIVES WITHOUT CAPITAL EXCHANGE										
		- LONG POSITIONS										
		- SHORT POSITIONS										

SECTION 5 – OPERATIONAL RISK

QUALITATIVE INFORMATION

A. General aspects

Banca UBAE calculates the capital requirement for operational risks by applying the Basic Indicator Approach, as required by current legislation. At the moment, the Bank does not intend to request the application of the standardised approach. Despite having opted for the basic calculation methodology, Banca UBAE is implementing an operational risk management system capable of assessing and monitoring over time the exposure to operational risks and the extent of the losses that could result. In this sense, on the one hand, a review project has been launched for all processes, and on the other hand, an internal project is underway to implement a "transversal" tool aimed at risk assessment and loss-data collection activities.

On the occasion of operations on new products or services, the Finance Department, in collaboration with the Organisation and Systems Department, the Compliance Department, the Risk Management Department and the Internal Auditing Department, presents the General Management with a complete analysis of the risks associated with the new operation.

The calculation of the capital requirement on operational risk at 31 December 2019 was determined by taking as reference the indicator referred to in article 316 CRR.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for operational risks; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

		31.12.2019	31.12.2018
OPERATIONAL RISK		**5,945**	**6,558**
1	BASIC METHOD	5,945	6,558
2	STANDARDIZED METHOD		
3	ADVANCED METHOD		

SECTION 6 – OTHER RISKS: COUNTERPARTY AND SETTLEMENT RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring counterparty risk

LThe intermediation activity in OTC interest rate and exchange rate derivative instruments generates the risk that, upon expiry, the counterparty will not meet the payment obligations deriving from the stipulated contracts (counterparty risk); after exceeding this contractual expiry, in case of failure fulfilment, the counterparty risk is transformed into settlement risk.

Counterparty risk is monitored, both overall and with reference to individual types of exposure, through the ObjFin front office system which manages the internal operating limits.

Each counterparty, both banking and corporate, authorised to negotiate derivative instruments, is entrusted by the Board of Directors, the Credit Committee or other competent body of the Bank, through the granting of specific ad hoc credit lines. The limits are controlled by the Middle Office Department through the front office system which performs a daily recalculation of all existing positions, based on updated prices. The Risk Management Department, based on the results deriving from internal analyses, produces periodic reporting for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

The measurement of internal capital against counterparty risk is carried out by applying the current value method.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and the risk tolerance for counterparty risk (including Credit Valuation Adjustment); the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

B. General aspects, processes for managing and measuring settlement risks

With the exception of transactions in OTC derivative instruments, which generate counterparty risk, Banca UBAE negotiates financial and exchange instruments, both listed and unlisted, exclusively with a payment-versus-delivery clause, limiting exposure to the risk of settlement to a minimum.

SECTION 7 - CONCENTRATION RISK

QUALITATIVE INFORMATION

A. General aspects, management processes and methods for measuring concentration risk

For the purpose of containing the global concentration level of exposures, the Bank operates in compliance with Large Exposures regulations, identifies and reports exposures with a weighted amount above 10% of the eligible capital and monitors compliance with the lending limit by reporting any overriding positions to the Supervisory Authority.

In order to reduce the risk of possible over-shooting of the lending limit, the Bank is finalising the implementation of an automatic calculation tool that allows the business units to continuously monitor the absorption percentage of this limit.

The prudential regulation (Pillar II) provides for the calculation of an additional capital requirement against the single-name concentration risk for the corporate portfolio; substantially the simplified algorithm applied for the purpose of determining capital absorption is based on the Herfindal concentration index and is calculated quarterly for the purposes of capital adequacy and the RAF.

In addition to conducting analyses on capital adequacy, the Risk Management Department conducts quarterly stress testing by simulating, with the same corporate exposure, an increase in the level of concentration of the portfolio.

In addition, the analyses in terms of capital adequacy are integrated with the capital absorption envisaged for the risk of geo-sectorial concentration; for this purpose, the quantitative methodology is applied developed by the trade association for the determination of a capital add-on for exposures to corporate residents in Italy.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance both for the single-name concentration risk and for the geo-sectorial concentration risk; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

The concentration associated with exposures to banking counterparties does not fall within the scope of calculation of capital absorption, although in line with regulatory provisions, the Bank has provided for a system of internal operating limits aimed at limiting exposure to this risk. The limits are monitored quarterly by the Risk Management Department and are periodically reported to the corporate bodies.

Finally, the Risk Management Department conducts quarterly analyses of the composition of the portfolio according to the economic sector in which the counterparty operates and the geographical area in which it resides. This information completes the analysis of the Bank's concentration profiles and is preparatory for conducting stress tests in the credit risk area.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro risk limit and risk tolerance for single-name concentration risk and geo-sectorial concentration risk; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

Finally, the Bank has defined an internal concentration risk management policy, for large exposures and for SBEs (Shadow Banking Entities); this policy defines the roles and responsibilities of the various corporate bodies and offices, the process of monitoring internal and external limits also introducing a new system of operating limits connected with exposures to SBEs, as well as the reporting process. During 2020, following the implementation of the monitoring tool, the policy will become fully operational.

SECTION 8 – COUNTRY RISK AND TRANSFER RISK

QUALITATIVE INFORMATION

A. General aspects, processes for managing and measuring country risk

Banca UBAE measures the capital requirement against country risk by applying an internal calculation methodology aimed at determining an additional capital absorption that completes the internal analyses in terms of capital adequacy. The rationale for this additional requirement, although not required by law, is essentially attributable to the Bank's specific operations in certain geographical areas.

From the managerial point of view, the granting of a usage limit for each country is envisaged, which is the responsibility of the Board of Directors, and which regulates loans to countries that have a rating lower than BBB or that are unrated.

The internal policy, on the other hand, governs the methods for identifying, assessing, measuring and monitoring country risk and transfer risk. This policy was revised in 2016 in order to implement the decisions of the European Commission on banks residing in non-equivalent countries (SBE).

With regard to transfer risk, the Bank has decided to include this risk, from a quantitative point of view, in the wider global context of country risk; while from a qualitative point of view, the periodic assessment of this risk is envisaged by analysing the composition of the credit portfolio and determining the relevance of the exposures to countries belonging to the transfer risk classes provided by trade associations.

The Risk Management Department prepares periodic reports containing the results of the analyses for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Department monitors compliance with the macro risk limit and risk tolerance for country risk on a quarterly basis; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

As part of the Risk Appetite Framework, the Risk Management Department, on a quarterly basis, monitors compliance with the macro limit and tolerance for country risk; the results of the analyses are periodically reported to the Risk Committee, the Audit & Risk Committee, and the Board of Directors.

SECTION 9 – STRATEGIC RISK

QUALITATIVE INFORMATION

A. General aspects, processes for managing and measuring strategic risk

Banca UBAE measures the capital requirement against strategic risk by applying an internal calculation methodology aimed at determining an additional capital absorption which completes the internal analyses in terms of capital adequacy. The rationale for this additional requirement, although not required by law, is attributable to the relevance of the strategic planning process and to the economic effects connected with potential changes in the operating and regulatory contexts and/or non-timely processes for adjusting the strategic lines to these changes.
As part of the Risk Appetite Framework, the Risk Management Department monitors compliance with the macro risk limit and risk tolerance for strategic risk on a quarterly basis; the results of the analyses are subject to periodic reporting to the Risk Committee, the Audit & Risk Committee and the Board of Directors.

SECTION 10 – RISK OF EXCESSIVE FINANCIAL LEVERAGE

QUALITATIVE INFORMATION

A. General aspects, processes and methods for measuring the risk of excessive financial leverage

Current prudential legislation requires banks (in line with the principle of proportionality) to oversee the risk of excessive leverage, providing for its inclusion amongst the risks to be subjected to assessment in the ICAAP context and introducing a representative indicator of leverage (Leverage Ratio), calculated as the ratio between Tier 1 Capital and the Bank’s overall exposure. The ratio, which is being monitored by the authorities, is expressed as a percentage and is subject to a minimum regulatory limit of 3% (reference value set by the Basel Committee). The Bank has adopted an internal policy governing the risk management process, defining the methods for identifying, assessing, measuring and monitoring risk and allocating tasks and responsibilities among the internal units. The Risk Management Department prepares periodic reports containing the results of the analyses carried out and intended for the Risk Committee, the Audit & Risk Committee and the Board of Directors.

PART F INFORMATION ON SHAREHOLDERS' EQUITY

Section 1 – Shareholders' equity

A. QUALITATIVE INFORMATION

Asset management concerns the set of policies and choices necessary to establish the size of the asset in order to ensure that it is consistent with the activities and risks assumed by the Bank which is subject to the capital adequacy requirements established by the Basel Committee (CRR/CRD IV) and in particular to the capitalisation objectives that the Oversight Authority sets in the SREP area (Supervisory Review and Evaluation Process).

The verification of compliance with the minimum supervisory requirements and the consequent adequacy of the equity is a function of both the objectives set in the planning, which take into account the possible evolution of the risk, as well as what is regulated at the Risk Appetite Framework level (RAF).

Also in accordance with the recommendations of the European Central Bank of 28 January 2017, compliance with capital adequacy is also ensured by compliance with a dividend distribution policy related to the achievement of the minimum capital requirements mentioned above.

On a quarterly basis, the Risk Management Department monitors compliance with the supervisory ratios, draws up prospective estimates of the ratios and checks the adequacy with respect to what is regulated in the RAF.

A further phase of analysis and preventive control of the Bank's capital adequacy takes place whenever exceptional transactions are planned (more significant transactions). In this case, the impact on the system of risk limits is estimated and an opinion of consistency with the RAF is put forward by the Risk Manager.

B. QUANTITATIVE INFORMATION

B.1 Shareholders' equity: breakdown

ITEMS/VALUES		AMOUNT 31.12.2019	AMOUNT 31.12.2018
1	CAPITAL	159,861	159,861
2	ISSUE SURCHARGES	870	16,702
3	RESERVES	107,366	42,470
	- OF PROFITS	6,041	42,470
	A) LEGAL	13,494	13,494
	B) STATUTORY		35,626
	C) OWN ACTIONS		
	D) OTHERS	(7,453)	(6,650)
	- MISCELLANEOUS	101,325	
4	CAPITAL INSTRUMENTS		
5	(OWN ACTIONS)		
6	VALUATION RESERVES	834	(24,560)
	- EQUITY SECURITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
	- COVERAGE OF EQUITY SECURITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY		
	FINANCIAL ASSETS (OTHER THAN EQUITY SECURITIES) MEASURED AT FAIR VALUE WITH IMPACT ON TOTAL PROFITABILITY	1,055	(24,368)
	- TANGIBLE ASSETS		
	- INTANGIBLE ASSETS		
	- DIFFERENZE DI CAMBIO		
	- HEDGING OF FOREIGN INVESTMENTS		
	- HEDGING OF FINANCIAL FLOWS		
	- HEDGING INSTRUMENTS (NON-DESIGNATED ELEMENTS)		
	- EXCHANGE RATE DIFFERENCES		
	- NON-CURRENT ASSETS AND GROUPS OF ASSETS HELD FOR SALE		
	- FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE WITH IMPACT ON INCOME STATEMENT (CHANGES IN OWN CREDITWORTHINESS)		
	- ACTUARIAL GAINS (LOSSES) RELATING TO DEFINED BENEFIT PENSION PLANS	(221)	(192)
	- SHARES OF VALUATION RESERVES RELATING TO SUBSIDIARIES VALUED AT NET EQUITY		
	- SPECIAL REVALUATION LEGISLATION		
7	PROFIT (LOSS) FOR YEAR	(26,144)	(51,457)
TOTAL		242,787	143,016

B.2 Valuation reserves relating to financial assets available for sale: breakdown

ASSETS/VALUES		31.12.2019		31.12.2018	
		POSITIVE RESERVE	NEGATIVE RESERVE	POSITIVE RESERVE	NEGATIVE RESERVE
1	DEBIT SECURITIES	1,055			(24,368)
2	CAPITAL SECURITIES				
3	FINANCINGS				
TOTAL		1,055			(24,368)

B.3 Valuation reserves relating to financial assets available for sale: Yearly variations

			DEBT SECURITIES	CAPITAL SECURITIES	FINANCINGS
1	**OPENING BALANCE**		**(24,368)**		
2	**POSITIVE CHANGES**		**38,926**		
	2.1	FAIR VALUE INCREASES	38,926		
	2.2	VALUE ADJUSTMENTS FOR CREDIT RISK			
	2.3	TRANSFER TO INCOME STATEMENT OF NEGATIVE RESERVES FROM REALISATION			
	2.4	TRANSFERS TO OTHER COMPONENTS OF EQUITY (EQUITY SECURITIES)			
	2.5	OTHER VARIATIONS			
3	**NEGATIVE CHANGES**		**13,503**		
	3.1	REDUCTIONS IN FAIR VALUE	13,503		
	3.2	WRITE-BACKS FOR CREDIT RISK			
	3.3	TRANSFER TO INCOME STATEMENT FROM POSITIVE RESERVES: FROM REALISATION			
	3.4	TRANSFERS TO OTHER COMPONENTS OF EQUITY (EQUITY SECURITIES)			
	3.5	OTHER VARIATIONS			
4	**CLOSING BALANCE**		**1,055**		

SECTION 2 – OWN FUNDS AND PRUDENTIAL RATIOS

2.1 Scope of application of the law

Consolidated own funds, risk-weighted assets and solvency ratios at 31 December 2014 were deter-mined based on the new harmonized framework set out in Directive 2013/36/EU (CRD IV) and Regulation (EU) 575/2013 (CRR) dated 26 June 2013, as well as Bank of Italy's Circulars no. 285 and 286 (issued during 2013) and the update to Circular no. 154.

Pursuant to the provisions concerning own funds, the new regulatory framework will be gradually phased in over a transitional period extending until approximately 2017.

2.1.1 Banking own funds

A. QUALITATIVE INFORMATION

1. Common equity Tier 1 Capital (CET1)

A) Common equity Tier 1 Capital (CET1) This item includes:

- 159.8 million Euro in paid-up capital instruments;
- 0.8 million Euro in share premium;
- 107 million Euro in other reserves, including retained earnings;
- accumulated other comprehensive income, positive to the tune of 0.8 million Euro and consisting of:
  0.2 million Euro in the negative reserve for actuarial losses deriving from defined-benefit plans in accordance with the new IAS19;
  1 million Euro in positive reserves for HTC&S;

D) Items to be deducted from CET1

This item includes the following main aggregates:
- 0.1 million Euro in goodwill and other intangible assets.

E) Transitional regime - Impact on CET1 (+/-), including minority interests subject to transitional provisions

This item includes the following transitional adjustments:
- Exclusion of losses not deriving from the first application (FTA) 1 January 2018 - of the international accounting principle IFRS9 equal to approximately Euro 5.6 million;

2. Additional Tier 1 Capital (AT1)

G) Additional Tier 1 Capital (AT1) gross of items to be deducted and the effects of the transitional regime

No data to report

3. Tier 2 Capital (T2)

M) Tier 2 Capital (T2) gross of items to be deducted and the effects of the transitional regime

This item includes:

- the amount allowed by the supervisory norms relating to the compatibility of subordinated loan recognition, amounting to EUR 100 million;

B. QUANTITATIVE INFORMATION

		TOTAL 31.12.2019	TOTAL 31.12.2018
A	**COMMON EQUITY TIER 1 (CET1) BEFORE APPLICATION OF PRUDENTIAL FILTERS**	**242,787**	**142,774**
	OF WHICH CET1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
B	CET1 PRUDENTIAL FILTERS (+/-)		
C	**CET1 GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME (A+/- B)**	**242,787**	**142,774**
D	**ITEMS TO BE DEDUCTED FROM CET1**	(127)	(357)
E	**TRANSITIONAL REGIME - IMPACT ON CET1 (+/-)**	5,605	6,277
F	**TOTAL COMMON EQUITY TIER 1 (CET1) (C-D+/-E)**	**248,265**	**148,694**
G	**ADDITIONAL TIER 1 CAPITAL (AT1) GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME**		
	OF WHICH AT1 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
H	**ITEMS TO BE DEDUCTED FROM AT1**		
I	**TRANSITIONAL REGIME - IMPACT ON AT1 (+/-),**		
L	**TOTAL ADDITIONAL TIER 1 CAPITAL (AT1) (G-H+/-I)**		
M	**TIER 2 CAPITAL (T2) GROSS OF ITEMS TO BE DEDUCTED AND THE EFFECTS OF THE TRANSITIONAL REGIME**	**100,000**	**100,000**
	OF WHICH T2 INSTRUMENTS SUBJECT TO TRANSITIONAL PROVISIONS		
N	**ITEMS TO BE DEDUCTED FROM T2**		
O	**TRANSITIONAL REGIME - IMPACT ON T2 (+/-)**		
P	**TOTAL TIER 2 CAPITAL (T2) (M-N+/-O)**	**100,000**	**100,000**
Q	**TOTAL OWN FUNDS (F+L+P)**	**348,265**	**248,694**

2.2 CAPITAL ADEQUACY

A. QUALITATIVE INFORMATION

The self-assessment process of Banca UBAE's overall capital adequacy is defined by applying the principle of proportionality (according to the approach recommended by the Oversight Body to Class 3 banks). The objective is to continuously ensure compliance with the capital requirements (with reference to both the risks considered in Pillar I and the quantifiable risks considered in Pillar II, according to the simplified methods), and to provide the Board of Directors and the General Management with the information required to set up the Bank's capital strengthening policies efficiently and effectively.

To achieve these two objectives, the process focuses on the definition and monitoring of four quantities, although with estimated approximations due to the application of the standard methods:

- the total internal capital, given by the sum of the minimum capital requirements for the various risk categories of Pillar I (credit risk, counterparty risk, market risks and operational risks), of Pillar II (concentration risk by counterparties or groups of connected counterparties and interest rate risk on the banking book) and of the categories of risks considered by the Bank to be relevant (country risk, geo-sectorial concentration risk and strategic risk), with reference to the specific date;

- The total internal capital under stress conditions, given by the overall internal capital on the specific date, modified to take into account the stress factors envisaged for credit risk, concentration (single name) and interest rate risk on the banking book;

- The prospective total internal capital, given by the total internal capital calculated on the assets approved as a result of the planning and budgeting process and having an impact on credit risk, operational risks, concentration risk and country risk;

- The total capital, given by the sum of the capital resources and the hybrid capital instruments available to the Bank for the coverage of internal capital and therefore of the unexpected losses connected to the various risks.

B. QUANTITATIVE INFORMATION

CATEGORIES/VALUES			NON-WEIGHTED AMOUNT		WEIGHTED AMOUNT	
			31.12.2019	31.12.2018	31.12.2019	31.12.2018
A	**RISK ASSETS**					
A1	**CREDIT AND COUNTERPARTY RISK**					
	1	STANDARD METHODOLOGY	2,369,477	2,913,911	1,291,784	1,281,464
	2	METHODOLOGY BASED ON INTERNAL RATINGS				
		2.1 BASED				
		2.2 ADVANCED				
	3	SECURITIZATION				
B	**REGULATORY CAPITAL REQUIREMENTS**					
B1	CREDIT AND COUNTERPARTY RISK				103,343	102,517
B2	CAPITAL REQUIREMENTS				2	8
B3	CAPITAL REQUIREMENTS					
B4	MARKET RISK				4,765	5,662
	1	STANDARD METHODOLOGY			4,765	5,662
	2	INTERNAL MODELS				
	3	CREDIT CONCENTRATION RISK				
B5	OPERATIONAL RISK				5,945	6,553
	1	BASIC INDICATOR APPROACH			5,945	6,553
	2	STANDARDIZED APPROACH				
	3	ADVANCED METHOD				
B6	OTHER CALCULATION FACTORS					
B7	**TOTAL PRUDENTIAL REQUIREMENTS**				114,055	114,740
C	**RISK ASSETS AND CAPITAL REQUIREMENT RATIOS**					
C1	RISK-WEIGHTED ASSETS					
C2	COMMON EQUITY TIER 1 CAPITAL/RISK-WEIGHTED ASSETS (CET 1 CAPITAL RATIO)				1,425,685	1,434,245
C3	CAPITAL /RISK-WEIGHTED ASSETS (TIER 1 CAPITAL RATIO)				17.41%	10.37%
C4	TOTAL OWN FUNDS/ RISK-WEIGHTED ASSETS (TOTAL CAPITAL RATIO)				17.41%	10.37%
					24.43%	17.34%

PART G: MERGERS INVOLVING CORPORATE UNITS OR LINES OF BUSINESS

No data to report.

PART H: DEALINGS WITH RELATED PARTIES

In December 2011 Banca d'Italia published a new set of prudential rules governing risks, exposures and conflicts of interest arising from dealings with related parties, pursuant to and for the purposes of art. 53, paragraph 4 of the Banking Law. The provisions regulate dealings with individuals and entities that may exert a considerable influence, either directly or indirectly, over a bank's decision-making processes, thereby potentially undermining the latter's objectivity and impartiality.

In June 2012 the BD approved the Bank's Internal Regulations covering this area to ensure that its operating procedures conformed to the above mentioned rules. As stipulated by Banca d'Italia, the new rules became effective on 31 December 2012. . In addition, a procedure was issued giving a breakdown of roles and responsibilities for the various units involved as regards approval procedures and conformity with regulatory limits.

A tool has been created, with the support of external consultants, to ensure the control of exposures. It can group exposures for each related party and provide a reakdown by timeframe in order to facilitate monitoring ('grandfathering' and immediate an/five-year repayment plans). The tables below show the Bank's outstanding economic and financial positions with related parties as at 31 December 2018.

1. COMPENSATION OF DIRECTORS, AUDITORS AND MANAGEMENT

Compensation during 2019 for Directors, members of the Board of Auditors and General Management covers fiscal and social security contributions and charges gross of tax, and also includes any variable components.

The table below shows information required by IAS 24, paragraph 16 concerning executives with strategic responsibilities, intended as those officers having powers and responsibilities for planning, management and control, and also who have access to information concerning the compensation of the Bank's Directors and Statutory Auditors.

	DESCRIZIONE		TOTAL
(1)	**SHORT-TERM BENEFITS**		**3,299**
	- DIRECTORS	1,400	
	- AUDITORS	102	
	- MANAGEMENT	1,797	
(2)	**POST-SEVERANCE BENEFITS**		**95**
(3)	**OTHER BENEFITS**		**1,245**

(1) fixed and variable amounts payable to Directors and Auditors plus senior managers' salaries and social charges
(2) allocations to the severance fund
(3) other benefits sanctioned by the law or the Internal Regulations including Directors' travel expenses

The following table shows assets and liabilities with such individuals

DESCRIPTION	SENIOR CORPORATE OFFICIALS	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	145		145
FINANCIAL LIABILITIES	123		123

2. DEALINGS WITH RELATED PARTIES

As prescribed by IAS 24, the Bank's dealings with related parties are in conformity with and in application of the relevant regulations in force and especially as regards:

- provisions concerning the interests of Directors, as per art. 2391 of the Civil Code;
- art. 136 of Legislative Decree 385/93 (Banking Law);
- Section V - Chapter 5 of prudential supervisory authority instructions contained in Banca d'Italia circular No. 263/06.

In particular, following the recent introduction of the aforementioned Section V, related parties are intended as those indicated below, by virtue of their relations with an individual bank or a supervised intermediary belonging to a group, with the parent holding company:

a. company officer;
b. stakeholder;
c. party other than a stakeholder with individual powers to appoint one or more members of the management body or strategic supervisory body, including pursuant to agreements stipulated in whatsoever form or statutory clauses for the purposes or effect of exercising such rights or powers; a company or even an entity established in a non-company form over which the bank or banking group can exercise control or exert considerable influence.

In addition to the above, related parties also include parties linked to related parties, namely:

1. companies or entities established in a non-company form controlled by a related party;
2. parties that control one of the related parties indicated in points 2 and 3 of the relative definition, that is, parties either directly or indirectly subject to joint control with the same related party;
3. close family members of a related party and companies or entities controlled by the latter.

The tables below show the Bank's equity and economic relationships with related parties that fall within the above mentioned supervisory authority instructions (Libyan Foreign Bank and entities associated with it, and Unicredit Group).

Dealings with the majority shareholder Libyan Foreign Bank (LFB) and the Unicredit shareholder and their group companies fall within the scope of the Bank's normal business operations and are conducted at the same market terms and conditions as with other non-related counterparties having the same credit standing, among which the parent entity, Central Bank of Libya.

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS	8	104,662	104,670
FINANCIAL LIABILITIES	916,456	361,656	1,278,112
ISSUED COMMITMENTS	7,704	107,672	115,377

DESCRIPTION	UNICREDIT	CONNECTED PARTIES	TOTAL
FINANCIAL ASSETS		5,015	5,015
FINANCIAL LIABILITIES			
ISSUED COMMITMENTS	2,671		2,671

As far as main business line are concerned, UBAE's profitability in connection with said transactions can be summarized as follows:

COSTS

DESCRIPTION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	39	578	617
COMM. ON LETTERS OF GUARANTEES	497	1,399	1,896
INTEREST	15,407	2,661	18,068
SUBORDINATED LOANS	2,535		2,535
TOTAL	18,478	4,638	23,115

REVENUES

DESCRIZION	LFB	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS	195	3,710	3,905
COMM. ON LETTERS OF GUARANTEES	229	422	650
INTEREST	389	2,809	3,198
TOTAL	813	6,941	7,754

COSTS

DESCRIZION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES	37		37
INTEREST			
SUBORDINATED LOANS			
TOTAL	37		37

REVENUES

DESCRIZION	UNICREDIT	CONNECTED PARTIES	TOTAL
COMM. ON LETTERS OF CREDITS			
COMM. ON LETTERS OF GUARANTEES			
INTEREST		77	77
TOTAL		77	77

Relations and dealings with related parties are not considered to be critical inasmuch as they fall within the Bank's normal credit and service activities.

No atypical or unusual transactions or dealings were conducted with related parties during the year that, in terms of significance or the amount concerned, could have given rise to doubts as regards safeguarding the Bank's equity position. Dealings with related parties are duly conducted at market terms and conditions, and in any event always based on evaluations of economic convenience in conformity with the regulations in force, providing adequate substantiation as regards the reasons for and convenience of such dealings. The Financial Statements do not include either provisions for or losses as a result of doubtful receivables from related parties. Concerning the latter, only an overall write-down for total receivables has been applied.

PART I: PAYMENT AGREEMENTS BASED ON THE BANK'S OWN CAPITAL INSTRUMENTS

No data to report.

PART L: SEGMENT REPORTING

No data to report.

PART M: LEASING INFORMATION

Please refer to the information in part A " First application of IFRS 16 - Leasing".

STATUTORY AUDITORS' REPORT PURSUANT TO AND FOR THE PURPOSES OF ART.2429 OF THE CIVIL CODE

To all shareholders,
pursuant to article 2403 of the Civil Code, the Board of Statutory Auditors is called upon to report to the Shareholders' Meeting on the supervisory activity carried out during the year. We inform you that supervisory activities have been carried out according to the provisions of the Civil Code, of legislative decree no. 385 dated 1 September 1993 (consolidated banking law – T.U.B.), of legislative decree no. 39 dated 27 January 2010, of the statutory rules and the regulations of the authorities that carry out supervisory and control activities, also taking into account the principles of conduct recommended by the National Council of Chartered Accountants and Accounting Experts.

* * *

With reference to the balance sheet of Banca UBAE S.p.A. closed on 31 December 2019 showing a loss of 26,144,425 euros, the Board of Statutory Auditors notes that it has been drawn up in accordance with the international accounting standards IAS/IFRS (International Accounting Standards and International Financial Reporting Standards) currently in force. In particular, the balance sheet as at 31 December 2019 has been prepared on the basis of the "Instructions for preparing financial statements of companies and the consolidated financial statements of banks and banking group parent companies" issued by Banca d'Italia with circular no. 262 dated 22 December 2005 and subsequent updates.

The explanatory notes to the balance sheet, in addition to the specific indications required by the rules on preparing financial statements, provide the information deemed appropriate to demonstrate the Bank's equity, financial and economic situation.
The report prepared by the Board of Directors contains the appropriate management information, to be considered exhaustive and complete.
In drawing up the report, the directors acknowledged the possible organizational and economic-financial effects on the Bank's activity following the Covid-19 pandemic.

Regarding the methods the Board of Statutory Auditors has used to carry out its institutional activity, we acknowledge that it has:

- attended the meetings of the Board of Directors, the Audit & Risk Committee and the Remuneration Committee;

- periodically met with the heads of the Internal Audit sector, the Compliance sector and the Risk Management sector to exchange information on the activities carried out and on the control programmes;

- carried out periodic checks, monitoring compliance with the law, the articles of association, compliance with the principles of correct administration and the adequacy of the Bank's organizational structure and internal control system;

- held periodic exchanges of information with the managers of the auditing firm;

- constantly followed events which affected the Bank.

The Board of Statutory Auditors is not aware of any transactions carried out contrary to the law, unrelated to the corporate purpose or in conflict with the Articles of Association or with the resolutions passed by the Shareholders' Meeting or by the Board of Directors.

1. Intergroup operations or with related parties

During the year, we did not find or receive indications from the Board of Directors, the management, the auditing firm or the Internal Audit manager regarding the existence of atypical and/or unusual transactions carried out with related parties or intergroups.

Related party transactions are illustrated by the directors in the explanatory notes.

The Board of Statutory Auditors believes that the aforementioned ordinary operations are to be considered congruous and responsive to the Bank's interests, connected and inherent to the realization of the corporate purpose.

2. Adequacy of information provided in the directors' management report regarding atypical and/or unusual operations, intergroup or with related parties.

In addition to the indications in point 1, the Board of Statutory Auditors highlights that, as regards transactions concluded with related parties and/or associated parties, pursuant to article 2391 bis of the Civil Code in compliance with the provisions on related subjects, referred to in Banca d'Italia circular no. 285 dated 17 December 2013, the Bank has adopted specific internal regulations and specific procedures that ensure the management and continuous monitoring of these transactions.

3. Statutory audit of accounts

The Board of Statutory Auditors supervised: (i) the financial reporting process; (ii) the effectiveness of the internal control, internal audit and risk management systems; (iii) the statutory audit of the annual accounts; (iv) the independence of the statutory auditor, in particular as regards the provision of non-auditing services.

The Board of Statutory Auditors examined the plan of auditing activities, as well as the report prepared by the statutory auditor, whose activity complements the general framework of the control bodies established by legislation with reference to the financial reporting process.

This report, released on 14 April 2020 pursuant to article 14 of legislative decree 39/2010 and article 10 of EU Regulation no. 537/2014, highlights that the financial statements have been prepared on the basis of the international accounting standards IAS / IFRS issued by the International Accounting Standards Board and adopted by the European Union, in force on 31 December 2019, also in accordance with the provisions implementing article 43 of legislative decree 136/2015, and have been prepared on the basis of the instructions issued by Banca d'Italia with circular 262/2005 and subsequent amendments and additions.

The report also highlights that the financial statements provide a true and fair view of the financial position, the economic result and the cash flows for the year ended 31 December 2019. In addition, in the opinion of the statutory auditors, the management report is consistent with the budget documents.

The statutory auditors, who periodically met for the purpose of exchanging mutual information, did not report to the Board of Statutory Auditors any actions or facts deemed reprehensible or irregularities that required specific action.

4. Reports pursuant to article 2408 and complaints

During the 2019 financial year, the Board of Statutory Auditors did not receive any reports pursuant to article 2408 of the Italian Civil Code, nor have any complaints been received.

5. Comments on compliance with the principles of correct administration

The Board of Statutory Auditors, also through participation in the meetings of the Board of Directors and the Audit & Risks Committee, on the basis of the information assumed or received by the directors and by the officer in charge of the statutory audit of the accounts, has supervised compliance with the principles of correct administration, verifying compliance of the management decisions with the general criteria of economic rationality and on the observance by the directors of the obligation to exercise due diligence in carrying out their mandate. In this regard, the Board has no relevant information to report.

6. Comments on the adequacy of the organizational structure and internal control system

The Board of Statutory Auditors oversaw the adequacy of the Bank's organizational structure and internal control system, for the aspects of its competence, through direct observations, gathering information and interviews with the representatives of the auditing firm BDO Italia S.p.A.

7. Information on corporate bodies

The Board of Statutory Auditors, regarding the corporate bodies, reports that with reference to the provisions of article 36 of legislative decree 201/2011 – taking on or exercising roles in supervisory or management control bodies in competing companies or groups of companies operating in the credit, insurance or financial markets – the directors and members of the Board of Statutory Auditors assessed their respective situations and took the consequent decisions in order to comply with the indicated legislation.

8. Final assessment of the supervisory activity carried out

As a result of the supervisory activity carried out by the Board of Statutory Auditors, no reprehensible facts, omissions or irregularities emerged to be included in this report.

9. Proposals by the Board of Statutory Auditors to the Shareholders' Meeting

Taking into account all the foregoing, the Board of Statutory Auditors, given the content of the reports by the statutory auditor, does not find, as far as it is concerned, reasons impeding the approval of the financial statements proposal as at 31 December 2019 formulated by the Board of Directors.

* * *

Rome, 14 April 2020

The Board of Statutory Auditors

Fabio Gallassi, Chairman

Elenio Bidoggia

Francesco Rocchi

LEGAL AUDITORS' REPORT

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Via Ludovisi, 16
00187 Roma

Independent auditor's Report

pursuant to article 14 of Legislative Decree n. 39, dated January 27, 2010 and article 10 of EU Reg
n. 537/2014

To the shareholders of
Banca UBAE S.p.A.

Report on the financial statements

Opinion

We have audited the financial statements of Banca UBAE S.p.A. (the Company), which comprise th balance sheet as at December 31, 2019, the income statement, the statement of comprehensive ir the statement of changes in equity, the statement of cash flows for the year then ended, and note the financial statements.

In our opinion, the financial statements give a true and fair view of the financial position of the Cc as at December 31, 2019 and its financial performance and its cash flows for the year then ended i accordance with International Financial Reporting Standards as adopted by the European Union, as as the regulation issued to implement article 43 of Legislative Decree no. 136/15.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the of the Financial Statements section of our report. We are independent of the Company in accordar the ethical and independence requirements applicable in Italy to the audit of financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a bas our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance audit of the financial statements of the current period. These matters were addressed in the conte our audit of the financial statements as a whole, and in forming our opinion thereon, and we do nc provide a separate opinion on these matters.

Key audit matters	Audit responses
Valuation of Financial assets measured at amortized cost Disclosure reported in the following parts and sections of notes: *Part A – Accounting policies (A.2 – paragraph 3 - Financial assets measured at amortised cost)* *Part B - Information on the balance sheet (Section 4 - Financial assets measured at amortised cost - item 40)* *Part C- Information on the income statement- (Section 8 – Net impairment adjustments - item 130)* *Part E - Risks (Section 1 - Credit risk)* Financial assets measured at amortised cost (item 40 of Assets) as at December 31, 2019 amount to Euro 1,736 million, corresponding to 82% of total assets. This item is a key audit matter considering their amount and the complexity of the evaluation process, that include the estimation of some components as impairment indicators, expected cash flows and time of recovery, evaluation of guarantees, identification of parameters in the ECL impairment model.	Our main audit procedures performed in response to the key audit matter regarding the valuation of Financial assets measured at amortised cost, included the following: - analysis of the procedures and processes related to the item and verification of the effectiveness of controls to monitor these procedures and processes; - procedures for reconciling data between management systems and information reported in the financial statements; - comparative analysis procedures and analysis of credit risk coverage ratios and the results with the management involved; - analysis of the criteria and methods for the classification and valuation of Financial assets measured at amortised cost and verification on a sample basis of the reasonableness of the assumptions and of the components used for the classification and analytical and collective assessment and the relative results; - examination of the disclosures provided in the notes.

Key audit matters	Audit responses
Valuation of risks related to litigation	
Disclosure reported in the following parts and sections of notes: *Part A - Accounting policies (A.2 - 10 - Provisions for risks and charges)* *Part B - Information on the balance sheet (Section 10 - Provisions for risks and charges - item 100)* *Part C- Information on the income statement- (Section 11 - Net provisioning for risks and charges - item 170)* This item is a key audit matter considering the complexity and judgement in the evaluation process of risks related to the legal and fiscal litigation.	Our main audit procedures performed in response to the key audit matter regarding the valuation of risks regarding the litigation, included the following: - reading the company's books; - analysis and discussion, also through our legal and tax experts, of the company's reports and opinions prepared by external consultants regarding the assessment of risks relating to outstanding disputes; - procedures for external confirmation of legal and tax advisors who support the company in litigation.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, as well as the regulation issued to implement art. 9 of Legislative Decree no. 38/05, as well as the regulation issued to implement art. 9 of Legislative Decree no. 38/05 and art. 43 of Legislative Decree no. 136/15 and, within the terms provided by the law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA Italia will always detect a material misstatement when it exists.Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA Italia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also have:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, as properly identified in accordance with ISA Italia, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have also provided those charged with governance with a statement that we have complied with relevant ethical and independence requirements applicable in Italy, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described those matters in the auditor's report.

Other information communicated pursuant to article 10 of EU Regulation 537/2014

We were engaged by the shareholders meeting of Banca UBAE S.p.A. on September 10, 2012 to perform the audits of the financial statements of each fiscal year from December 31, 2012 to December 31, 2020.

We declare that we did not provide prohibited non audit services, referred to article 5, paragraph 1, of EU Regulation 537/2014, and that we remained independent of the company in conducting the audit.

We confirm that the opinion on the financial statements included in this audit report is consistent with the content of the additional report prepared in accordance with article 11 of the EU Regulation n.537/2014, submitted to those charged with governance.

Report on other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, letter e), of Legislative Decree n. 39/10

The directors of Banca UBAE S.p.A. are responsible for the preparation of the report on operations of Banca UBAE S.p.A. as at December 31, 2019, including its consistency with the financial statements and its compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Banca UBAE S.p.A. as at December 31, 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the report on operations is consistent with the financial statements of Banca UBAE S.p.A. as at December 31, 2019 and is compliant with applicable laws and regulations.

With reference to the assessment pursuant to article 14, paragraph. 2, letter e), of Legislative Decree n. 39/10 based on our knowledge and understanding of the entity and its environment obtained through our audit, we have nothing to report.

Rome, April 14, 2020

BDO Italia S.p.A.

(signed in the original)

BDO Italia S.p.A.

Emmanuele Berselli

Partner

RESOLUTIONS PASSED BY SHAREHOLDERS' ORDINARY GENERAL MEETING HELD ON 12.05.2020

AGENDA

1. Review and approval of the Accounts for the financial year ended 31 December 2019 and of the Annual Report on operations

2. Statutory Auditor's report

3. Legal Auditor's report

4. Proposal to cover the loss for the 2019 financial year and resolution pertaining thereto

5. Approval of the 2020 Remuneration and incentives policy for Directors, Auditors, salaried staff and personnel not in the Bank's direct employee (pursuant to the Banca d'Italia's Circular Directive 285/2013) and the Policy for identification of relevant personnel

Having taken cognizance of the Directors' Annual Report, the Statutory Auditors' report and the Legal Auditors' report accompanying the financial statements for the year to 31 December 2019, the AGM unanimously resolved:

- to approve Banca UBAE's financial statements as of 31 December 2019, accompanied by the Board's Report on Operations, which shows a loss for the year of Euro 26,144,425;
- to approve the proposal to postpone settlement and to cover the loss for the year at 31 December 2019 with profits from future years.

With the approval of the above, Shareholders' Equity will amount to Euro 242,787,066 and will be composed as follows:

- Share Capital	Euro	159,860,800
- Legal Reserve	Euro	13,494,100
- Other reserves (*)	Euro	101,325,070
- Share premium account	Euro	870,225
- IFRS9 FTA reserve from 2018 loss	Euro	(7,757,798)
- IAS FTA reserve from 2005 IAS profit	Euro	305,240
- Revaluation Reserves	Euro	833,854
- Net loss 2019	Euro	(26,144,425)
	Euro	242,787,066

(*) portion of Libyan Foreign Bank for the capital increase

ANNEX A

COUNTRY-BY-COUNTRY REPORTING

AS AT 31 DECEMBER 2019

Regarding the obligations prescribed by circular no. 285 of 17 December 2013 "Supervisory Dispositions for Banks" – 4th update of 17 June 2014 on country-by-country reporting introduced by article 89 of directive no. 2013/36/EU ("CRD IV"), shown below are the details marked by letters a), b) and c) of Annex A of the First Part, Section III, Chapter 2, with reference to the situation at 31 December 2018.

a) Denomination and nature of activity

Denomination: Banca UBAE S.p.A.
Registered office: Roma, Via Quintino Sella 2
Milan branch: Piazza A. Diaz, 7
Representation office: Tripoli (Libya), O. Mukhtar Invest Complex
Corporate capital: EUR 159,860,800 fully paid up

Activity: Banca UBAE was set up in 1972 as the "Union of Arab and European Banks", as a banking institute with Italian-Arab capital. The shareholders of Banca UBAE include important banks: Libyan Foreign Bank - Tripoli, Unicredit - Rome, Banque Centrale Populaire and Banque Marocaine du Commerce Extérieur - Casablanca, Intesa Sanpaolo – Turin, and leading Italian companies: Sansedoni Siena (Monte dei Paschi di Siena Foundation) – Siena, ENI Adfin (ENI Group) – Rome, and Telecom Italia - Milan.

The current objective is to develop industrial and economic trading relations between Italy and the countries of North Africa and sub-Saharan Africa, the Middle East, the Indian subcontinent and the countries of Southeast Europe.The main services offered to customers who work with foreign countries are: export financing, letters of credit, standby letters of credit, risk sharing, guarantees, finance, trading and financial syndications, as well as professional assistance in foreign countries through a network of local consultants. The Banca UBAE currently operates in fifty countries with the support of 500 correspondent banks occupying a position of reference and reliability in the foreign trade sector. The bank does not have branches abroad.

b) Turnover[1] = EUR 26,131,301

c) Number of employees on equivalent full-time basis[2] = 184

d) Loss (before tax)= EUR 26,144,425

e) Income tax on year’s loss = -

d) Public contributions received = None, not applicable

[1] “Turnover” is understood as the gross operating income as per item 120 of the income statement. "Loss before tax" means item 260 on the income statement. Taxes" means the total amount of taxes as shown in item 270 on the income statement.
[2] Number of employees on equivalent full-time basis” is understood as the ratio between the overall number of hours worked by all the employees, excluding overtime, and the annual total laid down in the contract for a full-time employee.

ANNEX B

OBLIGATION TO PUBLIC DISCLOSURE

All the material required by the Banca d'Italia circular no. 285 of 17 December 2013 on the subject of providing information for the public, will be published on the Bank's website at the following address:

www.bancaubae.it

More specifically, within a month of the shareholders' meeting to approve the financial statement, the document regarding the third Pillar will be published on the website, also containing information on:

- own funds (article 437, paragraph 2, of CRR);
- own funds in the period from 1 January 2014 to 31 December 2021 (article 492, paragraph 5, of CRR)
- financial activities without constraints (article 443 of CRR)
- financial leverage (article 451, paragraph 2, of CRR)

Furthermore, also on the subject of providing information for the public and regarding the Bank's remuneration policies, the data required by article 450 of the CRR as set out in the Banca d'Italia circular, will be published in the same way as described above.

TRADE COMMERCIAL BUSINESS

L/Cs Finance and Guarantees for Export - Import Operations

SYNDICATIONS & ENERGY

Managing Trade in the Energy and Infrastructure Sectors

FACTORING

A service for which the Bank has set up a dedicated desk at its Milan Branch

FINANCE

Treasury and Forex Business

ADVISORY ACTIVITIES

Traditional banking products and distinctive tailor-made solutions, as well as linking our customers with primary foreign banks in countries we cover

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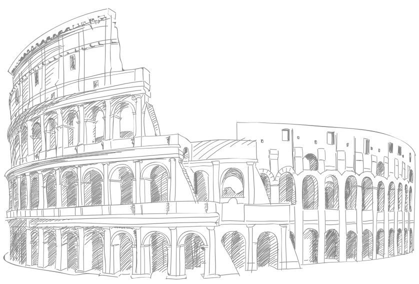

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